

#### Stock Data

Share Price:	1.70p
Market Cap:	£9.8m
Shares in issue:	577.3m
52 week high/low	2.34p/1.01p

#### Company Profile

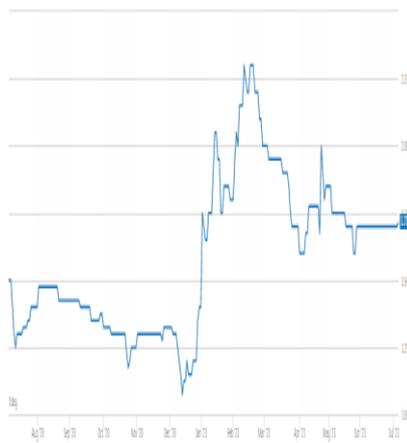
Sector:	Medical Equipment
Ticker:	DEMG
Exchange:	AIM

#### Activities

Deltex Medical ('DEMG', 'Deltex', 'the Group') manufactures and markets haemodynamic monitoring technologies which are primarily used in critical care and general surgical procedures.

Website: [www.deltexmedical.com](http://www.deltexmedical.com)

#### 1-year share price performance



Source: [LSE](https://www.lse.com)

Past performance is not an indication of future performance.

#### Turner Pope contact details

Tel: 0203 657 0050  
Email: [info@turnerpope.com](mailto:info@turnerpope.com)  
Web: [www.turnerpope.com](http://www.turnerpope.com)

Andrew Thacker  
Corporate Broking & Sales  
[andy.thacker@turnerpope.com](mailto:andy.thacker@turnerpope.com)

Barry Gibb  
Research Analyst  
[barry.gibb@turnerpope.com](mailto:barry.gibb@turnerpope.com)

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## Deltex Medical Group plc

Deltex has published an update on trading for the half-year ended 30 June 2021. While the shock of COVID-19 and its associated hit on levels of elective surgery now appears to be fully reflected in the Group's share price, the scale of the opportunity that is expected to be presented through international healthcare providers seeking to tackle the huge procedural backlogs that have subsequently built up clearly has not. Governments and healthcare providers, led by the UK and US, have already committed substantial new investment in an effort to accelerate clearance as soon as they have sufficient evidence regarding the success for their vaccination programmes and improved general availability of ICUs. This presents Deltex with opportunity for a sharp spike in activity levels to be registered before the end of 2021 and remains its key near-term value driver. Having also continued to advance its next generation product developments/initiatives at a time when both governmental and private payers have become increasingly focused on evidence-based interventions, improved patient outcomes and limited post-operative complications that accrue from adoption of such technologies, the Group appears to have positioned itself to emerge strongly into a post-Pandemic environment.

### Pre-close trading update – Revenues held up surprisingly well

First half revenues held up surprisingly well at £1.1 million (1H 2020: £1.2 million). Unlike last year, where activity levels were at pre-Pandemic levels in the opening months (January and February), the whole of H1 2021 was adversely affected by COVID-19 and the resultant subdued elective surgery activity levels in its key markets. Cash at hand on 30 June 2021 was a reasonable £0.6 million (30 June 2020: £0.6 million, 31 December 2020: £0.9 million), having taken steps to minimise cash outflow to minimise cash burn wherever possible during the lockdown.

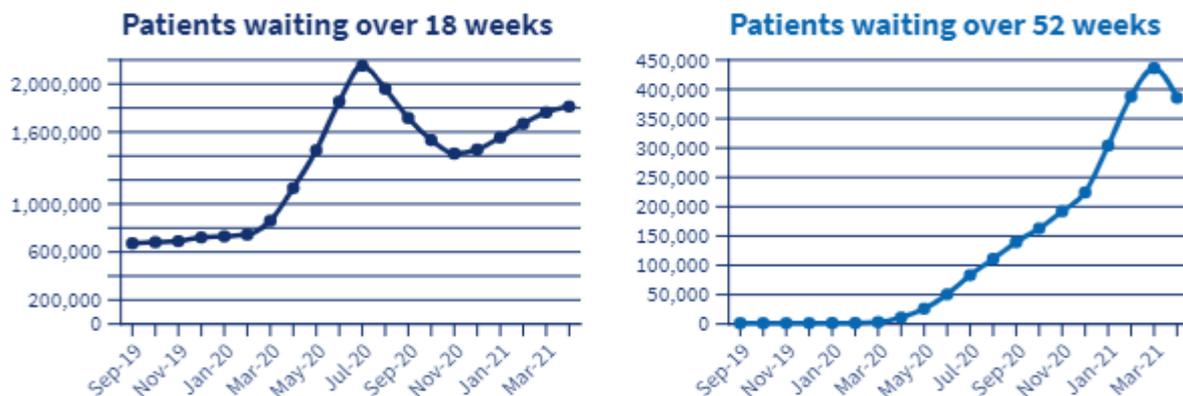
While the Group had experienced an initial increase in ICU-related demand at the beginning of the Pandemic, this was not large enough to counteract the effect of the cessation of elective surgery globally. As it progressed into 2021, use in ICUs reduced as fewer patients were in need of ventilation. To respond to the constraints imposed by remote working, it also invested in and improved its portfolio of digital training resources, which helped counterbalance the restrictions imposed on salespeople or technical experts physically entering hospitals. More positively, the Group's International division also saw a significant increase in revenues, attributable to its French distributor beginning to place regular orders again to satisfy demand associated with a contract previously awarded by the Greater Paris University Hospitals (Assistance Publique-Hôpitaux de Paris).

### Ideally positioned an anticipated upsurge in elective surgical procedures

Based on the success of international vaccination programmes across key markets addressed by Deltex, there remains a general expectation that the COVID-19 pandemic will gradually abate toward the end of 2021. As a result, Deltex's Board continues to expect revenues to climb in the second half as the number of elective surgical procedures increases around the world. This will be influenced not only by rising availability of ICUs, but also the ability of the Group's clinical educators to visit key accounts, reminding them not only of the patient and economic benefits of its core technology, but also the additional facility presented through its next generation TrueVue monitor which is targeted for release in Q4 2021.

The scale of the international backlog that has built up over the past 18 months is quite breath-taking. In the UK for example, the BMA estimates that between April 2020 and March 2021 there were 3.5 million fewer elective procedures. Many elective procedures were cancelled as the second, worse wave of COVID-19 cases and hospitalisations set in, causing further growth in the backlog. While the overall median waiting time for treatment decreased to 11 weeks in April 2021, the total number of patients waiting over 18 weeks for treatment increased again to 1.81 million. This represents a quite extraordinary 35-times the number waiting more than a year for treatment in April 2020 and 368-times the number waiting in April 2019. In response, the Royal College of Surgeons of England in May 2021 called on the government to agree a 'New Deal for Surgery', commit an additional £1bn for surgery every year for the next five years with a view to creating 'hubs' across the country to reduce the 'colossal elective surgery backlog'.

UK consultant-led referrals to the treatment waiting list to end-April 2021 are detailed below:



Source: [NHS Digital](#)

Although there is evidence that surgery volumes have gradually started to recover in certain western and Asian countries, disruption still remains reasonably pronounced at this time, even accelerating in the certain territories including less developed economies that have been unable to access sufficient supplies of the vaccinations or have inadequate local distribution networks. The general expectation, however, is that this will peak in Q3 2021 as the success of global vaccine programmes gradually permit healthcare systems to return to a 'new normality'. This in turn should lead to a decrease in post-operative pulmonary complications and reduced use of ICUs, enabling international governments to re-prioritise the restarting of elective surgery. Specialist surgical providers, like Deltex Medical, can then be expected to participate in the anticipated surge in activity that follows, which appears large enough to be sustained beyond 2022 even after adjusting for allocations of significantly increased capacity by healthcare providers.

Deltex can also be expected to benefit from ongoing initiatives now being taken by international healthcare providers to find heightened efficiencies through adoption of technological solutions. This is significant for Deltex given the lower costs, reduced average ICU in-patient stays and improved outcomes that have been demonstrated through the Group's TrueVue™ Doppler routinely enabling hospitals to achieve greater surgical throughput.

The US, being a very large market with higher price points, remains the key for Deltex, not least because its 'payers' have a greater focus on costs including length-of-stay and complications. The UK, however, also remains important with COVID-19 having been seen to force important change within the NHS; some of this may result in a permanent change of approach, enabling Deltex to highlight the economic and patient benefits that accrued from deployment of TrueVue Doppler in ICUs at the beginning of the Pandemic. Internationally, Deltex already sells via a network of c. 40 distributors, many of which have healthcare markets that presently remain in the midst of second and even third COVID-19 waves.

### Next generation product development

The anticipated increase in surgical activity provides a strong backdrop for the launch of the Group's new, potentially transformative next generation monitor, which is targeted in Q4 2021. This upgraded version of its TrueVue™ haemodynamic monitoring system will offer more comprehensive and precise information covering the key characteristics of a patient's haemodynamics (blood flow and blood pressure) while also enabling such data to be readily downloaded for further analysis etc. It will also incorporate battery

power, making it a more mobile and clinically useful device with broader applications. It is expected to generate strong revenue growth from both new monitor sales and replacement of existing units.

Collaborative research work also undertaken with the UK's National Physics Laboratory ('NPL') has been constructive not only in terms of improving existing products, but also in the development of a new non-invasive Doppler device that Deltex is planning to release with its next generation monitoring platform. This new ultrasound device is expected to have broader utility and be used in a number of different clinical areas that are presently not serviced. These could include Accident & Emergency departments, where it could act as a sophisticated triage tool, through to looking at the haemodynamic status of conscious, unsedated patients in a general ward setting or in the ICU.

Deltex's Board have also identified a new trend, which is being led by some of the world's large MedTech groups, relating to capturing raw haemodynamic data with a view to using such information to create and guide patient treatment protocols. Such 'curated data sets' comprise information linked to the patient's haemodynamic status which can subsequently be used as a reference for constructing predictive models of future clinical events. Using artificial intelligence, they can also be used to create cloud-based haemodynamic algorithms which would further improve the quality of patient care. The TrueVue™ System is the only commercially available haemodynamic monitoring device able to generate such data with the requisite precision to allow such protocols to be created.

### Anticipating the reopening of its principal markets

Deltex appears to be well positioned to seize opportunity from the reopening of its principal markets. Having taken a number of steps to preserve available resources, the Group managed to end 2020 with a reasonable level of cash (£0.6m), despite which it continued development/expansion of a range of next generation products/initiatives, supported digital training/marketing resources and retained its highly trained and specialist teams in anticipation of a resumption in elective surgery. With global vaccination programmes having now gathered significant pace and with western governments/healthcare providers now urgently seeking to address the enormous backlogs of elective surgery, however, there is potential for presently subdued activity levels to spike sharply upward sometime before the end of 2021, particularly amongst the Group's core NHS and US hospital customer base who will be keen to secure the lower costs, shorter length-of-stay and improved outcomes that have been demonstrated by use of TrueVue™ Doppler technology. Assuming these territories successfully contain any further waves of the Pandemic as restrictions are increasingly eased, the scale of the surgical backlog suggests such higher levels of activity have potential to be sustained beyond 2022, during which time TPI also expects the Group's to be able to return to (or even surpass) the level of gross margins it achieved in 2019.

Against this background, it is important to note that the long-term opportunities presented by this specialist sector clearly are not going unnoticed by larger industry players, who are attracted to the increasing addressable market for haemodynamic monitoring. This has been evidenced by the acquisition of several of Deltex's competitors over the past couple of years (such as LiDCO Group plc in November 2020). The general trend towards more onerous regulatory requirements associated with medical devices in healthcare markets around the world, including the transition from the Medical Device Directive ('MDD') to the Medical Device Regulation ('MDR'), continues to raise barriers to entrance. Such changes include an increasing need for manufacturers of such equipment to cite efficacy data generated by their own products in regulatory submissions, as opposed to using third party data collected from other sources. Having invested considerable resources in compiling an unrivalled evidence base comprising 24 Randomised Clinical Trials ('RCTs'), these collectively demonstrate clinical advantages available through adoption of TrueVue™ Doppler. As a result, the inherent value associated with Deltex's technologies is unlikely to go unnoticed by international operators seeking to enter this field.

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