

**Stock Data**

Share Price:	22.00p
Target Price	94.70p
Market Cap:	£47.34m
Shares in issue:	215.16m
52 week intraday high/low:	70.0p/20.0p

**Company Profile**

Sector:	Healthcare
Ticker:	DVRG
Exchange:	AIM

**Activities**

DeepVerge plc ('DeepVerge', 'DVRG', 'the Group'), (formerly Integumen plc) is an environmental and life science group of companies that develops and applies AI and IoT technology to analytical instruments for the analysis and identification of bacteria, viruses and toxins.

[www.deepverge.com](http://www.deepverge.com)

**Share price chart since 25 March 2017**



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

Past performance is not an indication of future performance.

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TPI acts as sole broker to DeepVerge plc.

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## DeepVerge plc

DeepVerge has released a post-31 December 2021 year end trading update along with a statement detailing its outlook for the current year. Unaudited figures point to another year of triple digit percentage growth, taking revenues to £9.33m (2020: £4.48m – audited) on the back of higher margins and an increase in recurring revenues despite supply chain delays and reduced production staff due to COVID infection/isolation in the fourth quarter. With several substantial 2021 shipments plus a backlog of regular reagent supplies needing to be pushed into Q1 2022, continued expansion of order books across all divisions supported by an exceptionally strong balance sheet provides strong foundations for the current year. Based on this, the ambitious forecasts and valuation that TPI published back on 3 August 2021 remains unchanged, suggesting a target price for the Group, which presently trades on a lowly 8x 2022 EBITDA multiple, of 94.7p/share.

(Please note that TPI's valuation is based on financial modelling and there is no guarantee that such a valuation will ever be realised, therefore please do not base investment decisions on this valuation alone. Also please note that past performance is not a reliable indicator of future results.)

### Exceptional 2021 results despite continued Pandemic-related delays

Back on 11 January 2021 DeepVerge's CEO, Gerry Brandon, stuck his neck well above the parapet, providing investors with revenue guidance of £10m for the coming year. At that time of course, just about nobody envisaged Pandemic conditions continuing beyond the summer. The Group nevertheless secured orders comfortably excess of this target, even if supply chain delays and COVID infected staff requiring isolation during Q4 2021 ultimately pushed some shipments and backlog of reagent supplies into Q1 2022. Summary unaudited results for the period were as follows:

- Total 2021 order intake in excess of £10m
- 2021 Group revenues +108% to £9.33m (2020: £4.48m - audited)
- Full year 2021 EBITDA loss expected of c.£0.22m (2020: loss £0.86m)
- Full year 2021 expected loss before tax of c.£3.50m (2020: £2.87m)
- H2 2021 revenues of £6m (H2 2020: £3.4m) delivered first profitable EBITDA half year (excluding exceptional items)

TPI estimates that Pandemic conditions forced c.£1.3m of revenues that in normal conditions would have been recorded in Q4 2021 to slip into Q1 2022. Amongst other things, this included installation of Government National Infrastructure trial equipment with a value of £480,000 that was originally due for completion before the year end, along with several All-Membrane Brine Concentration ('AMBC') installations destined for India and the Middle East plus backlog bacterial reagents supplies. Notwithstanding these, TPI believes DeepVerge would have managed to exceed the forecasts it set back in August 2021, which included a revenue estimate of £10.5m and EBITDA of £0.25m. TPI also notes that while the Group's anticipated 2021 full year loss before tax of c.£3.50m appears high, investors should recognise that this figure will have been substantially magnified by the revenue shortfall being pushed into Q1 2022.

Based on the work now being carried over into Q1 2022, with order books continuing to expand across all divisions, TPI has retained its ambitious 2022E forecast for a further triple digit annual percentage increase in revenues to £24.00m along with post-exceptional EBITDA of £6.19m, which generates free cash of £3.99m and leaves the Group's period-end cash at an impressive £10.7m.

## Skin Trust Club to launch video medical consultations & diagnostic service

DeepVerge today also announced Skin Trust Club's launch of video medical consultations and diagnostic service. This new opt-in remote offering is expected to provide additional revenue from a complementary extension to the consumer-based Skin Trust Club, which incorporates the Skin Trust Club Artificial Intelligence Skincare App and Home Test Kit. This new service is expected to be rolled out in Q2 2022, providing video consultants that include Dermatologists, General Practitioners and Clinical Nursing personnel.

The fact that Skin Trust Club has rapidly accumulated over 30,000 registered members, some 58% of which have underlying skin conditions, suggests DeepVerge has identified a significant international, longer-term unmet consumer need. In order to satisfy this home test processing capacity heading into 2022 is 20,000/month in each of the UK, Ireland and US laboratories, although additional capacity to substantially expand this in response to spiking demand can be brought quickly on-stream.

The success of this unique, bespoke service is being demonstrated by Club members that have already begun to purchase skincare products, recommended for their personalised daily skincare routines, through a new Skin Trust Club marketplace service. This new in-app and web-based sales channel promotes skin care manufacturers, Labskin partners and consumer test clients, generating wholesale revenue for Labskin on products sold through the platform.

## Modern Water – Local community testing for COVID-19 and other pathogens

Modern Water Mobile Services ('MWMS') is positioning itself as a critical new component in the armoury of national and provincial government response protocols. The expanded Microtox® PD product launch in Q1 2022 will allow utilities to extend their reach into smaller sites for more granular 'last mile' surveillance, enabling local authorities and private companies to protect citizens and customers by monitoring for COVID-19 and a range of additional pathogens, including forever chemicals.

Factors such as size, cost, reach and route to market have remained central to the Group's design philosophy throughout, significantly influencing the upgraded product offering. Microtox® PD has been designed to be retrofitted into existing Modern Water equipment to detect and identify a range of infectious viruses and bacteria including SARS-CoV-2, E. coli, Legionella and Cryptosporidium on a single chip, using AI, in real-time. The new units are smaller, making them more suited to local populations; fully mobile, allowing them to be transported to different sites at short notice; mass producible, ensuring regional customer affordability; and available, through a business model that offers new manufacturing partnerships and corporate franchise opportunities in the developing world where it can be sold at locally affordable prices.

Benefits from utilisation of the new compact offering include:

- Real-time detection of the virus in the community at source,
- Zero transport costs of non-virus confirmed samples, and
- Variant testing only on confirmed virus at the laboratory.

Microtox® BT equipment has also been redesigned to deliver a portable, mobile testing unit to process breath tests at point of care. Further information on this development will be provided in H1 2022. As with all human diagnostic equipment, EU regulatory approval is required for formal roll out of this breath test product. The newly upgraded version of Microtox® BT will be subject to the rigorous test protocols established at the Group's Labskin facilities, once again utilising test subjects provided by the Royal College of Surgeons in Ireland through which the original prototype secured positive results.

Modern Water's equipment production and assembly lines in Ireland are also presently being advanced through a €2.7m project, including a €750,000 grant provided by Enterprise Ireland, for the semi-automated manufacture of 200 miniaturised Microtox®PD units/month. First units are expected to be delivered to buyers in Q2 2022. Elsewhere in the Group's Newcastle, Delaware, US facilities, additional demand for the bioluminescent Microtox® reagent has resulted in investment to upgrade laboratory equipment with additional operational staff hiring to alleviate a rising order backlog.

DeepVerge's collaboration with Microsaic Systems plc (AIM: MSYS) contributes portable real-time sewage monitoring for 'organics' such as drugs of abuse and active pharmaceutical ingredients front line water analysis portfolio. Both companies are engaged in a

collaboration to deliver complete solutions, with a backbone of analytics delivered to end users powered by AI techniques provided by the Modern Water division, Rinocloud.

Following the Group's recent installations in Beijing, China, ahead of the Winter Olympics, Microtox® CTM, LX, FX and Microtrace equipment continues to find strong demand. Significantly, this makes 9 out of the last 10 Olympic Games monitored for drinking water contamination by Modern Water's Microtox Toxicity testing. Based on this, the Group's multiple award-winning equipment and reagent consumables continue to build reputation in China, where orders from provincial and municipal governments continue to expand. Ongoing negotiations with China Resources Environmental Protection Development Limited ('China Resources'), a division of one of the world's largest natural resource groups, for the formation of a 49%-owned joint venture that includes a commercial framework agreement, with technology and support as well as a reseller agreement, remains ongoing. Providing a highly efficient route to deliver Modern Water's world leading technologies throughout the 23 provinces of China, a successful conclusion during 2022 could dramatically multiply long-term revenues from the territory.

### **Recognising the scale of the opportunities now being presented**

DeepVerge's recent record of delivering triple digit annual revenue growth looks to be sustained in 2022. The new year is expected to witness the beginnings of a step-change in both international need and longer-term demand for Modern Water's unrivalled pathogen testing equipment. In tandem with this, Group receipts continue to grow rapidly as processing capacity for Skin Trust Club's home test kits expand in response to surging demand, while Microtox BT's regulatory tests and joint venture negotiations with China Resources remain ongoing. Recognising the scale of the opportunities being presented and in expectation of further significant news releases in coming months, TPI has retained its ambitious 2022 forecasts for DeepVerge along with a DCF-based valuation that implies a share price target of 94.7p.

**(Please note that TPI's valuation is based on financial modelling and there is no guarantee that such a valuation will ever be realised, therefore please do not base investment decisions on this valuation alone. Also please note that past performance is not a reliable indicator of future results.)**

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