

DeepVerge plc

(‘DeepVerge’, ‘the Group’)

Stock Data

Share Price:	16.50p
Target Price	94.70p
Market Cap:	£36.25m
Shares in issue:	219.71m
52 week high/low:	70.0p/11.5p

Company Profile

Sector:	Healthcare
Ticker:	DVRG
Exchange:	AIM

www.deepverge.com

Microsaic Systems plc

(‘Microsaic’, ‘the Company’)

Stock Data

Share Price:	0.11p
Market Cap:	£6.74m
Shares in issue:	6,361m
52 week high/low:	0.30p/0.09p

Company Profile

Sector:	Electr. Equip.
Ticker:	MSYS
Exchange:	AIM

www.microsaic.com

Past performance is not an indication of future performance.

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TPI acts as sole broker to DeepVerge

TPI acts as joint broker to Microsaic

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DeepVerge Microsaic Systems

News updates from both DeepVerge and Microsaic have been released this morning. While providing a trading update for its traditionally quiet first quarter, in which Q1 2022 produced record unaudited sales up 84% to £2.38m, DeepVerge also confirmed one of its divisions had signed a Manufacturing Services Framework Agreement (‘MSFA’) with Microsaic with an initial contract worth £400,000, while also noting that it is presently seeing post-COVID market and sales activity intensify across all its international markets. Significantly, the Group’s Chief Executive Officer, Gerard Brandon, went on to note that “Growth remains on track to achieve triple digit percentage revenue growth year-on-year, similar to the last 3 and a half years”. Recognising the scale and international nature of the opportunities now being presented to DeepVerge, through Modern Water’s unrivalled pathogen testing equipment plus the surging demand presently being received for Skin Trust Club’s home test kits, both of which are expected to be bolstered by further significant news releases in coming months, TPI retains its forecasts and ambitious financial model for DeepVerge. A DCF-based valuation for the shares, which presently trade on a multiple of around 6x 2022E EBITDA, derives a price target of 94.7p. At this time, TPI does not publish a forecast or price target for Microsaic.

(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.)

Manufacturing Services Framework Agreement (‘MSFA’)

DeepVerge’s 100%-owned subsidiary, Innovenn UK Limited, has signed a MSFA with Microsaic to further develop Modern Water’s range of scientific instruments. An initial order of £400,000 has been placed for multi-sensor upgrades of the Microtox®PD and Microtox®BT products, which are Modern Water’s optofluidic-based sensors designed to identify pathogens in real-time.

Microsaic’s mass spectroscopy technologies will be utilised for the advancement of Modern Water’s ambitious development programme, enabling creation of a last mile solution of interconnected sensors capable of detecting a comprehensive range of bad actors in water from toxins to pathogens to perfluoroalkyl/polyfluoroalkyl substances (‘PFAS’) in real time. Such services will then be offered in the form of rugged, miniaturised mobile units, to utilities/health authorities responsible for providing services to different population centres. Application will stretch across Modern Water’s entire product offering, beyond Microtox®PD for wastewater and Microtox®BT Breath Test solutions, to also include the Microtox®LX/®FX photosensitivity range for toxicity detection and the voltammetry-based Microtrace range for heavy metals detection.

The MSFA requires Microsaic to improve and manufacture these complex instruments, while also providing the design, assembly, quality, and project management functions necessary to produce and ship equipment based on DeepVerge-approved specifications, design, and quality requirements. It extends the existing relationship between the two companies, which was formalised in a 3-year framework agreement announced on 24 March 2021, under which Microsaic supplies its own miniaturised mass spectrometry equipment and services on a non-exclusive basis across DeepVerge’s global sales network,

marketing and distribution channels, for healthcare diagnostic and environmental health applications. It runs for an initial one-year term, which automatically renews for successive 12-month periods, unless either party requests within 90 days prior to the anniversary of its intention not to renew. Further manufacturing services contracts with Microsaic may follow under the MSFA, subject to satisfactory execution of the initial contract and mutual agreement. The framework agreement ('MoU') signed by DeepVerge and Abingdon Health plc on 29 March 2022 adds to the Group's scientific knowledge, particularly in the area of Lateral Flow Tests ('LFT') and the technology's integration into Modern Water's optofluidic units, in order to multiply the volume of recurring consumable tests each piece of equipment can handle.

The news release noted that the MSFA and its associated work order constitute a related party transaction for the Group under AIM Rule 13, as DeepVerge directors Gerard Brandon (CEO) and Nigel Burton (Non-executive Director) are also Acting Executive Chairman and non-executive director, respectively, of Microsaic. The directors of DeepVerge who have considered the related party transaction are Ross Andrews, Camillus Glover and Fionan Murray ('Independent Directors').

Commercial opportunities now opening in a post-COVID environment:

After two years of being unable to adequately demonstrate its different model solutions and divisional capabilities or engage face-to-face with stakeholders, DeepVerge is now able to take advantage of post-COVID marketing freedoms to attend/present at multiple international cosmetic, beauty and environmental events. It has recently been presenting/taking stands at numerous expositions/conferences/ marketing forums etc., particularly on the west coast of America around San Diego and San Francisco.

Skin Trust Club sparks interest of Silicon Valley

Encompassing microbiology, microbiome data and AI delivered via its App, the Skin Trust Club's unique, value-added proposition which offers potential to address a mass worldwide skincare market, is something that has resonated in Silicon Valley. On 17 March 2022, the Skin Trust Club announced that it was planning to increase the genome sequencing capacity at its North American head office in New Castle, Delaware. This was followed on 29 March 2022 by an extension to its Medical and Wellness testing range; complementing the existing portfolio, this now includes hormone analysis (menopause and the skin changes during this time), stress levels (cortisol), vitamin D (and possibly other vitamins in order to recommend specific supplements), and other health markers such as for diabetes, heart and liver function.

Widely considered to offer a superior, scientifically-based selection process for individuals seeking personalised skin product recommendations, a number of large US cosmetic retailers have already expressed interest by placing minimum test orders of 5,000 units that they intend to trial both online and through retail outlets across the USA and Europe. Multiple global skin care organisations have also invited Skin Trust Club to engage with their innovation teams both in the US and Europe. Discussions with Tier 1 cosmetic brands potentially to add their product lines to the Skin Trust Club App's extended list of recommendations are now underway. Collaboration discussions are also continuing with multiple Silicon Valley VC backed skin care organisations. Health executives from top 3 Nasdaq-listed internet corporations who attended Skin Trust Club presentations on its AI capabilities have also indicated their desire for follow up meetings. Multiple high-tech and high-end beauty journalists that cover 'next wave' technologies have similarly expressed interest, interviewing senior DeepVerge scientists/AI & technology specialists.

Labskin considering expansion in US

At conferences in San Diego, San Francisco, London and Paris, Labskin has exhibited new products/service developments, while also demonstrating its capabilities to handle anticipated surges in customer demand. As a result, a number of major existing/prospective Tier 1 customers are now urging Labskin to expand the capacity of its US skin testing laboratories in the US. Accordingly, the life science division is presently in discussions with a number of different parties regarding contractual guarantees for new business in the US market as part of any such expansion plans. These continue with an ambition to establish terms for framework agreements covering R&D, exclusivity and sales volume. Labskin has also recently unveiled a number of additional products/services, including a new scalp model along with significant interest in its developments that cover the hair care and shampoo sectors.

Modern Water engaging with US cities for pathogen detection in wastewater

Having been at the forefront of the British Government’s Sentinel wastewater project, Modern Water is now engaging with US counterparts both at local and national government programme levels. Having showcased the real-time, networked and AI-supported capabilities of its Microtox®PD optofluidics offering at the Cincinnati, Ohio, USA, Wastewater Conference, a number of US cities, some of which are already Modern Water customers, are now engaging to undertake first trials of the solution. Elsewhere, in the Middle east and South Asia, Modern Water is also bidding for multiple medium-sized contracts (potential order size of £1m plus) for site installations. These are consortium projects where local companies lead manage and outsource to preferred providers, such as Modern Water, to provide equipment and support services as part of the overall solution. Should any of these bids be successful, the main obstacle to these deals completing is supply chain issues, primarily with China, where other consortium members are currently experiencing roll-out delays due to a shortfall of key components.

To the extent Modern Water can control its own supply chain in this environment, its divisions are working closely with partners in order to internalise as much as its supply chain as possible. Today’s agreement with Microsaic is part of this, while the Group’s recently acquired Glanaco site in Ireland is already producing equipment, including the fitting out of mobile laboratories to showcase the capability and sophistication of Modern Water’s real time solutions. Glanaco has also expanded its capacity as a logistics hub, with equipment and reagents destined for Europe and the Rest of the World now being coordinated through this site.

Recognising the scale of the opportunities now being presented

DeepVerge’s recent record of delivering triple digit annual revenue growth is set to be sustained in 2022. The traditionally quiet opening quarter already appears to be demonstrating the start 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 both surging demand and the opening of major new marketing opportunities. Meanwhile, Microtox®BT’s regulatory tests and joint venture negotiations with China Resources remain ongoing. As an AI company with a strong patent portfolio that own and controls all data being created through proprietary technologies applied to the life science and environmental sectors, DeepVerge’s unique services are now being supplied to government agencies (B2G), a list of Tier 1 (Fortune 100) global corporations (B2B) and through a disruptive sales/service platform direct to consumers (B2C). Recognising the scale of the opportunities being presented and in expectation of further significant news releases in coming months, TPI retains its ambitious 2022 forecasts for DeepVerge along with a DCF-based valuation, which suggests the shares presently trade at less than 6x its 2022E EBITDA multiple while implying 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.)

<p>Microsaic Systems plc: Activities</p> <p>Founded in 2001, Microsaic Systems plc (‘MSYS’, ‘the Company’) is a high technology company which develops point-of-need mass spectrometers, designed to improve the efficiency of chemical and biological workflows.</p>	<p>DeepVerge plc: Activities</p> <p>DeepVerge plc (‘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.</p>
<p>Microsaic Systems plc share price chart since 22 October 2018</p>  <p>Source: LSE</p>	<p>DeepVerge plc share price chart since 17 May 2017</p>  <p>Source: LSE</p>

Please note: Past performance is not an indication of future performance.

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