

Stock Data

Share Price:	15.50p
Target Price	94.71p
Market Cap:	£33.35m
Shares in issue:	215.16m
52 week intraday high/low:	70.0p/12.5p

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

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 announced a 39% increase in production orders for Modern Water equipment in Q1 2022, taking its current order book to around £5m for a range of drinking water testing, contamination and SARS-CoV-2 detection equipment. Expected to be delivered during the current financial year, this is the highest level of Q1 production orders ever recorded by Modern Water and spreads across its range of existing Microtox® (LX, FX and CTM) and Microtrace (trace metal) units, as well as the new pathogen detection units which will go into mass production in the next few months. With a fresh resurgence of COVID cases recently becoming evident in the west, particularly amongst older people, primarily due to increased socialising, waning immunity and a more transmissible version of the Omicron variant, international governments have already begun pushing a further round of booster vaccinations onto their populations while their water utilities anticipate a regulatory requirement for the semi-permanent nationwide installation of early-warning equipment capable of identifying the emergence of localised viral conditions. Recognising the proven capability of Microtox® PD, as an unrivalled, networked and AI-driven wastewater detection system that delivers exactly this, its move into mass production during H1 2022 ideally positions it to satisfy a prospective spike in demand in coming months.

Generating recurring revenues through Serviced Leases

Deepverge's business model has been designed to move away from capital expenditure sales only to a 'Serviced Lease' that encompasses multi-year installations/upgrades, value-added, real-time monitoring & maintenance services along with routine supply of consumables. Building support-related costs into the customer's annual operating expenditure, this not only increases projected revenue of the existing 'install-only' sales format by 140%, but also addresses seasonal cash flow issues that are generally associated with product manufacturing.

Of the £5m production orders, 27 Microtox CTM units with a sales value of US\$1.08m (£0.82m*) are to be installed on a 60-month serviced lease with monitoring and consumables at US\$40,000 (£30,500) per month. This amounts to US\$480,000 (£366,000) over the first 12 months from installation date resulting in \$2.4m (£1.83m) over 5-years.

Modern Water – Community testing for COVID-19 and other pathogens

Modern Water Mobile Services ('MWMS') has positioned itself as a critical new component in the armoury of national and provincial government response protocol. The expanded Microtox® PD product, that was launched in Q1 2022, allows 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

*£=US\$1.31

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 re-designed 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 installation in Beijing China which took place prior of the Winter Olympics, Microtox® CTM, LX, FX, 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 now starting to witness 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, which presently trades at less than 6x its 2022E EBITDA multiple, 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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