

Stock Data

Share Price:	11.70p
Target Price	94.71p
Market Cap:	£25.71m
Shares in issue:	219.71m
52 week intraday high/low:	36.00p/10.05p

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 27 March 2017



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

Past performance is not an indication of future performance.

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DeepVerge plc

DeepVerge has released its audited financial results for the year ended 31 December 2021, along with publication of its AR&A. Delivering triple digit percentage growth for the third year running despite incurring supply chain complication during the peak of the COVID-19 crisis, the Group recorded positive second half adj. EBITDA profits for the first time in its history. With operations now centred around its two distinct, high growth divisions covering human health and environmental test services that continue to expand by product, numbers of customers and geography, the Board's confidence for 2022E remains high. Based on its Q1 performance and strong forward order book, TPI anticipates delivery of yet another year of triple digit percentage sales growth. Already projecting full year revenues of £24m that should be capable of delivering a net profit of c.£4.7m for the period, it is also clear that DeepVerge's opportunity to secure one or more major international and/or domestic utilities contact (including for national wastewater pathogen detection projects) along with Skin Trust Club's continued dramatic expansion, could magnify these numbers significantly in future years. Recognising the strength of the Group's balance sheet (plus associated debt facilities), TPI leaves its 2022E forecasts unchanged, which suggests the shares presently trade on less than a 5x 2022E adj. EBITDA multiple, 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.)

Financial highlight for year ended-December 2021

- Total 2021 revenue up 107% to £9.3m (2020: £4.5m). Orders exceeded £10m but supply chain and COVID pushed some shipments into Q1 2022;
- H2 2020 revenue growth tripled over the first half with strong sales of £6.0m leading to the Group's first EBITDA profitable half year (excluding exceptional costs);
- Adj. EBITDA losses before exceptional items fell by 98% to £0.01m (2020: £0.86m);
- Gross margin increased to 57% (2020: 41%);
- Administration costs increased by 91% to £8.7m (2020: £4.6m) including the first full year's consolidation of Modern Water;
- Operating loss fell by 2% to £2.655m (2020: £2.718m) includes intangible asset depreciation and amortisation of acquired businesses amounting to £3.2m (2021: £1.1m);
- Robust financial position following £10m equity placing; on 7 June 2021, now also supported by a £25m Mezzanine Loan facility that was arranged on 17 March 2022;
- The Board has not provided guidance for 2022, but expects to continue triple digit percentage growth across the Group.

Operational highlights, including post-period events

2019 and 2020 witnessed a phase of identification, acquisition and integration of key, strategic high growth technologies for DeepVerge. Their subsequent adaption and consolidation in 2021, together with the clear identification of international target markets, has led to the creation of multiple expanding revenue streams that are expected to drive growth this year and beyond.

With TPI now expecting escalating administrative costs to gradually tailing off, while also anticipating lower levels of both exceptionals and intangible depreciation & amortisation, we see opportunity for a further gross margins improvement to move the Group sharply into profit both at the operating and net levels during 2022E.

Operations individually continue to make progress in all areas.

Modern Water – Anticipating receipt of high visibility contracts from major utility groups

Total orders to the period exceeded £10m, but inevitable supply chain delays and COVID-19 infected staff requiring isolation in Q4 pushed some shipments and backlog of reagent supplies into Q1 2022. Increased demand required additional employees across all subsidiaries and expansion of laboratory space was maintained throughout 2021 and continues into 2022. Q1 2022 started strongly as a result, recordingsales up 84% to £2.38m (Q1 2021: £1.29m), with production orders for new equipment presently 39% higher to stand at c.£5m capable of sustaining momentum going forward.

Centred around a new generation of Microtox®PD (real-time detection in wastewater) equipment, Modern Water's sophisticated range of networked products are able to deliver real-time services to national and regional water utilities. This automated system was originally designed for the COVID-19 SARS-CoV-2 virus, but has the capacity to detect other dangerous pathogens such as bacteria and infectious viruses including pepper mild mottle virus ('PMMoV'), Influenza A, Influenza B, and Polio in wastewater, and E. coli in drinking water on a single chip, using AI, in real-time. These additional pathogens form part of an extension to the development relationship with the Aptamer Group plc (AIM: APTA). Data collected is then fed into a computer and artificial intelligence is used to predict where public health bodies should target their resources to contain any outbreaks.

With no competitor able to offer such a sophisticated, networked solution, Modern Water has been able to expand geographically to the extent that it is now actively involved in multiple international government, regional and municipal city infrastructure trials to deliver real-time alerts across their water/wastewater services. Ahead of anticipated regulatory enforcement, as trials continue on the national system of 'sentinel' sewage works which act as an early warning system for spikes of the most common variants of the SARS-CoV-2 virus, a positive outcome could result in the Water Services Regulation Authority (or Ofwat) recommending it as standard equipment to be installed by utilities across England and Wales. Similar opportunities exist elsewhere, including in the US, where engagement continues with numerous municipal water companies, and amongst various Middle East and South Asia Consortium projects, where it is involved in multiple £1m+ bids for on-site installations. Clearly, confirmation of a first major commissioning and maintenance contract from a recognised utility group will represent a ground-breaking moment, given the forward sales visibility and product endorsement this would bring. Having anticipated such an outcome, the recent £1.1m acquisition of Glanaco Engineering was completed to reduce capacity and chain supply concerns that otherwise might be voiced by potential major customers.

Skin Trust Club – Unprecedented demand for test kits

Supported through Labskin's expanded capacity, since mid-January 2022 Skin Trust Club ('STC') members had begun to utilise skincare products recommended for their personalised daily skincare routines by its home testing kits, which are purchased through the Skin Trust Club marketplace service. This new in-app and web-based sales channel promotes over 300 products from skincare manufacturers, Labskin partners and consumer test clients, generating wholesale revenue on products sold through its platform. With the rapid growth across this entirely new skin and healthcare sales platform, social media influencers facilitating momentum and leading skincare manufacturers, including TULA Skincare, Aurelia London, Gallinée Microbiome Skincare, Plantkos, ESSE, High Beauty, Nunaia, BE+Radiance, Better For You Wellness, DERMALA etc. that have joined the service, STC is now firmly established and looks set for a strong year ahead with revenues being sourced through multiple streams.

Offering a unique, bespoke service facilitated through the largest skin microbiome database in the world and its expanding range of applications, the STC presently has over 20,000 members with more than 50,000 website visits/month. Intense interest post-US Launch resulted in unprecedented demand for test kits and on the 17 March 2022, management announced planning for a new facility in New Castle, Delaware to facilitate roll-out across cities on the east coast of North America. This expansion plan is designed to meet expected demand for 2022, based on the proven track record in the UK and Ireland and following Q4 2022's well-received soft launches in the US.

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. Having already seen its revenues double during its 12 months of ownership, 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 expands 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 retains its current year forecasts for DeepVerge along with a DCF-based valuation, which suggests the shares presently trade at less than 5x 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.)

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