

**Stock Data**

Share Price:	10.14p
Target Price	94.71p
Market Cap:	£22.28m
Shares in issue:	219.71m
52 week high/low:	34.50p/9.3p

**Company Profile**

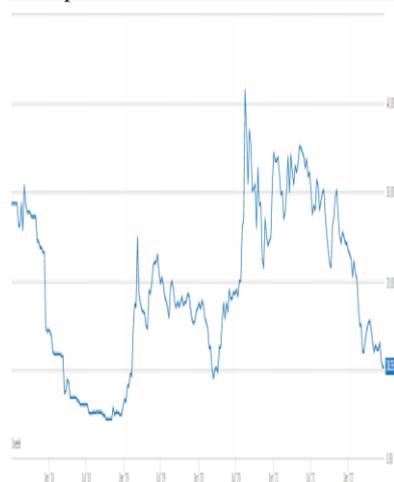
Sector:	Healthcare
Ticker:	DVRG
Exchange:	AIM

**Activities**

DeepVerge plc ('DeepVerge', 'DVRG', 'the Group') 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 27 March 2017



Source: LSE

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

News releases from DeepVerge's human health and environmental test services divisions demonstrate not only that their activity levels continue to increase, but also that marketing reach is expanding by both geography and business sector. On 30<sup>th</sup> June 2022, Modern Water confirmed it had seen Q2 demand from China and South Asia rebound strongly, with orders in excess of £3m received for delivery during the current financial year. Also, for the first time, this included monitoring and membrane sales to the high value microchip fabrication sector, which now presents significant new sales opportunities going forward. Today, a further announcement from the Group's consumer offering, Skin Trust Club, highlights its generation of £1m plus maiden revenues in Q2, while agreeing multiple new marketing and distribution agreements in UK & US. Very much in line with the strong organic growth that TPI projected back in July 2021, when it forecast full year 2022E revenues of £24m producing net profits of c.£4.7m, it is clear that DeepVerge's opportunity to secure major international and domestic utilities contracts (including for real-time wastewater pathogen detection) in tandem 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 (including associated debt facilities), TPI leaves its current year forecasts unchanged, which suggest the shares are now trading on less than a 5x 2022E adj. EBITDA multiple, along with a DCF-based valuation that implies a 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.)

### Skin Trust Club generates £1m plus sales in Q2

Skin Trust Club has evolved rapidly from a laboratory-based skin test to a personalised skincare solution that offers a unique consumer experience. It recognises that women globally are uncomfortable with the condition or appearance of their skin. In Britain, for example, a study conducted by Japanese skincare brand Hado Labo Tokyo last February concluded that 90% of over 35s quizzed expressed concern across a range of specific areas, including dryness (60%), dullness (42%), dark eye circles (35%), fine lines (27%), uneven skin tone (27%), redness (27%) and itchy skin (26%). DeepVerge's bespoke consumer offering, Skin Trust Club, powered by Labskin, regularly samples its member's microbiome, based on which it is able to provide various recommended products/solutions in order to support rebalancing/nourishing/rehydration etc. in order to improve the health of an individual's skin.

Competing in a global skin care market that was valued at c.US\$136.4 billion in 2020 accordingly to Statista, the consumer's desire for a fresh, personalised approach to their problems from an industry that otherwise appears bereft of new ideas is reflected by Skin Trust Club generating more than £1m in sales during Q2 2022. During this time, it also signed 20 new sales, marketing, distribution agreements with new era skin care companies which, in turn, opens up multiple routes to new revenues and market audiences across the UK and US. These Agreements create three new sources of revenues:

1. Product validation on Labskin before being made available on the Skin Trust Club marketplace.
2. Affiliate fee income for sale of client skincare company products via the Skin Trust Club and for Skin Trust Club sales via partner routes to market.
3. Data for product development of new products.

The agreements give Skin Trust Club access to a catalogue of more than 500 skincare products that are being tested and curated by Labskin scientists and Skin Trust formulators, to offer members recommendations of suitable skincare products for morning and evening skin care routines, based on their personalised skin reports. As its database grows, increasing by thousands of new microbiome samples each month, a rich learning environment is being created through its machine learning and artificial intelligence ('AI') algorithms. This world-leading skin microbiome database also enables Skin Trust Club to offer digital test solutions on a range of skin diseases for existing corporate clients and to the wider industry in general for faster and more cost-effective product development. This offers a significant new, differentiated source of future revenues for the platform.

### Modern Water Q2 orders exceed £3m post COVID restrictions in China & South Asia

Modern Water secured Q2 orders in excess of £3m from China and South Asia for delivery during the current financial year. Significant sales of water monitoring and membrane water recovery have been secured with Tier 1 partners. This includes a new vertical in the technology sector, specifically microchip fabrication manufacturers, which has opened up a very large new worldwide opportunity for the division.

Having seen the region entering and then re-entering COVID-19 lockdowns for the best part of two years, the Chinese and South Asian markets presented significant challenges for Modern Water and its collaborators/partners. Complicated further by the breaking down of normal supply chains, the teams nevertheless successfully intensified their marketing and selling communications, significantly raising Modern Water's online profile while also generating opportunities in sectors not previously addressed. In support of this, Modern Water successfully identified marketing/distribution partners capable of addressing larger and more sophisticated projects that utilise the division's extended Microtox and Microtrace equipment range, together with more efficient data aggregation capabilities that also interface with third party systems while integrating with SCADA (supervisory control and data acquisition) operational management systems. As markets started to reopen and regularise once again, the result was a sharp rebound in Q2 activity levels, producing in a number of seven figure deals across the markets of South Asia and the Middle East along with an extended pipeline for the second half.

With no competitor able to offer such a sophisticated, networked solution, Modern Water also continues to participate in various of international government, regional and municipal city infrastructure trials, with a view to demonstrate its ability to deliver real-time alerts across their extended water/wastewater services. Ahead of anticipated regulatory enforcement, for example, its first deployments of Microtox®PD in the UK to trial a 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, could result in the Water Services Regulation Authority (or Ofwat) recommending its products 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 visibility and product endorsement this would bring. Having anticipated such an outcome, DeepVerge's 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.

### 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 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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