

**Stock Data**

Share Price:	2.36p
Market Cap:	£19.94m*
Shares in issue:	844.71m*
52 week high/low:	33.00p/1.99p
<i>*Post Placing, assuming Broker Offer is taken up in full</i>	

**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)

**5-year share price performance**


Source: [LSE](#)

Past performance is not an indication of future performance.

**Turner Pope ('TPI') contact details**

Tel: 0203 657 0050  
Email: [info@turnerpope.com](mailto:info@turnerpope.com)  
Web: [www.turnerpope.com](http://www.turnerpope.com)

Andrew Thacker  
Corporate Broking & Sales

Barry Gibb  
Research Analyst

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# DeepVerge plc

DeepVerge has confirmed its successful raising of £10m (gross) new funding through a firm (the 'First Tranche') and conditional placing (the 'Second Tranche') and Subscription ('Third Tranche') (altogether 'the Placing') priced at 2.0p/share. The Placing was oversubscribed and received support from a number of new and existing institutional and other investors. A conditional (also 'Third Tranche') Broker Offer ('the Broker Offer') of up to a maximum number of 125m new shares has now also been launched to enable Turner Pope to accommodate additional demand under the Placing for qualifying parties on the same terms. Every 4 Placing shares will also have 1 Warrant attached, exercisable at 3.0p for a period of 12 months. DeepVerge's Board and management have participated in the Placing through a subscription valued at £392,500. It also considers that up to £2.7m of the total raise could be made available to enterprise investment scheme ('EIS')/venture capital trust ('VCT') funds. The entire fundraising is intended to support both the Group's working capital and capex needs going forward, while also repaying in full its outstanding Riverfort loan (including interest) and retiring the facility. A General Meeting ('GM') seeking approval for the conditional part of the Placing is expected to be convened on 14 November. The Placing Shares and the Broker Offer Shares will, if fully subscribed, represent up to approximately 74% of the Group's existing ordinary shares. Existing shareholders/other interested parties who are qualified investors and wish to register their interest in participating in the Broker Offer should communicate with TPI by clicking on the following link: [DeepVerge – TPI Broker Offer](#)

## Key Placing and Broker Offer indicative timelines

Corporate Action	Indicative Time and Date
Launch of Broker Offer	Post release on 27 October
Latest time and date for Broker Offer applications	4.30 p.m. on 28 October
Announcement of result of Broker Offer	31 October
Admission of the First Tranche Placing Shares	8.00 a.m. on 1 November
General Meeting	12.00 noon on 14 November
Admission of the Second Tranche Placing Shares	8.00 a.m. on 15 November
Admission of the Third Tranche Placing Shares, the Subscription Shares and any Broker Offer Shares	8.00 a.m. on 16 November

Source: DeepVerge, [RNS of 27 October 2022](#)

## Use of Funds

The gross proceeds receivable by DeepVerge pursuant to the Placing (and assuming no Broker Offer shares are issued) are expected to be £10m. The Group intends to use the net proceeds, after expenses, of approximately £9.35m for the following purposes, with additional net proceeds from the issue of any Broker Offer shares also being used for general working capital purposes.

Use of Funds*	Amount
Repayment of March 2022 Riverfort loan	£4.37m
Investment in Labskin and Skin Trust Club	£2.30m
Working Capital	£2.68m

\*Prior to any Broker Offer net proceeds

Source: DeepVerge, [RNS of 27 October 2022](#)

## Reorganisation of the Board of Directors

Accepting responsibility for the balance sheet pressure resulting from the Group's recent expansion, along with the relatively urgent need to refinance it sufficiently to service existing and anticipated customer activity, a reorganisation of the Board has been agreed.

This is expected to introduce the new skills and experience required to support the fast pace of growth expected in coming years. The current Non-executive Directors ('NEDs') will assume certain operational responsibilities during their search for suitable replacements, with Dr Nigel Burton assuming the role of Interim Chief Executive. An additional independent NED will also be appointed as part of the reorganisation. The principal Board changes are as follows:

Director	Previous Role	New Role
Dr. Nigel Burton	NED	Interim Chief Executive Officer
Gerry Brandon	CEO	Modern Water divisional director
Fin Murray	COO	Labskin/Skin Trust Club divisional director
Camillus Glover	CFO	Non-Board role, reporting to new Group CFO

Source: DeepVerge, [RNS of 27 October 2022](#)

## Details of the Broker Offer

Turner Pope has the opportunity to require the Group to issue the Broker Offer shares at the 2.0p Placing issue price to subscribers procured by Turner Pope as its agent. This will allow Turner Pope to accommodate additional demand under the Placing in the event that requests to participate are received from existing shareholders and/or other qualifying investors during the period following the release of the announcement on 27 October 2022 until 4.30 p.m. on 28 October 2022. Turner Pope will have absolute discretion (after consultation with the Group) in the allocation of any Broker Offer shares following the communication of any such interest, and communication of an order to Turner Pope will not guarantee any person any allocation or participation.

Any Broker Offer shares issued will be issued on the same terms and conditions as the Placing Shares and, when issued and fully paid, will rank *pari passu* in all respects with existing ordinary shares. The maximum number of shares to be issued pursuant to the Broker Offer is 125,000,000 to rise £2.5 million. Assuming it is fully subscribed, the Broker Offer will represent approximately 14.8% of the enlarged issued share capital. The Broker Offer is conditional upon the Third Tranche Admission becoming effective. If this condition is not satisfied, the Broker Offer shares will not be issued. Existing Shareholders or other interested parties who are qualified investors and wish to register their interest in participating in the Broker Offer should click on the following link: [DeepVerge – TPI Broker Offer](#)

## Repayment of Riverfort loan and retirement of the 3-year facility

On 17 March 2022, DeepVerge secured a mezzanine loan facility of up to £25 million with Riverfort Global Opportunities PCC Limited and YA II PN, Ltd ('the Lender'), available for 3-years in the form of 12-month mezzanine loan notes to fuel momentum across all divisions of the Group. Its initial drawdown of £4 million was used to fund the Glanaco acquisition, plus expansion of manufacturing capacity and laboratory space in the US for the Skin Trust Club, while also maintaining the growth trajectory of equipment production/building on increasing demand for the Group's products and services across all divisions.

The Initial Advance was due to be repaid by the payment of £500,000 on the last business day of months 7,8,9,10,11 (i.e., starting on 31 October 2022 onward) with the balance of £1,500,000 on the maturity date. Under the terms of a Deed of Standstill, it has been agreed between the parties that (amongst other things) there will be no Event of Default relating to any repayments under the Riverfort Loan that have been or may be missed up to 30 November 2022 (being the longstop date for Admission under the Placing Agreement). Recognising also that market conditions have now reduced financing optionality and the requirement to continue investing in the business, retirement of the facility (which carries a hefty 1%/month interest rate) is considered to be the most efficient solution for the refinanced Group. This is particularly important given it also avoids the potential for future issuance of new deeply discounted shares to the Lender, under which circumstances Riverfort would receive DeepVerge shares at a 20% discount to the prevailing price. Approximately 11.3m warrants owned by Riverfort and currently exercisable at 20p, however, will have their exercise price reset to the Placing price until March 2026. A further 0.95m Riverfort warrants will also be similarly repriced.

## Core operations expected to sustain strong growth going forward, targeting positive cash flow in H2 2023

DeepVerge's interim results of 22 September 2022 confirmed the Group had continued to enjoy substantial growth in each of its core operations. Unaudited revenues for H1 2022 grew by 94% to £6.436 million (H1 2021: £3.319 million), while adj. EBITDA

losses reduced by 46.6% to £0.372 million (H1 2021: £0.697 million loss) and operating losses fell by 7.4% to £2.139 million (H1 2021: £2.311 million loss) after providing for depreciation, amortisation and exceptional costs. Being expected to sustain quite dramatic expansion across its three core divisions that are connected by data analysis, artificial intelligence ('AI') and bacteria science, the financial management of this growth has proven to be the Board's biggest challenge while transitioning from elementary, lower margin unit sales to higher value-added, longer-term customer solutions with mass market appeal. When selected, the new Board of Directors (which will also include a new independent NED) can be expected to introduce additional skills to sustain this along with strengthened reporting lines and controls, while retaining the previous team's valuable experience and contacts through their new managerial roles. Subject to this, DeepVerge is confident that it can continue on its current growth trajectory with momentum sufficient for it to target becoming cash flow positive in H2 2023.

### Key Placing and Broker Offer statistics

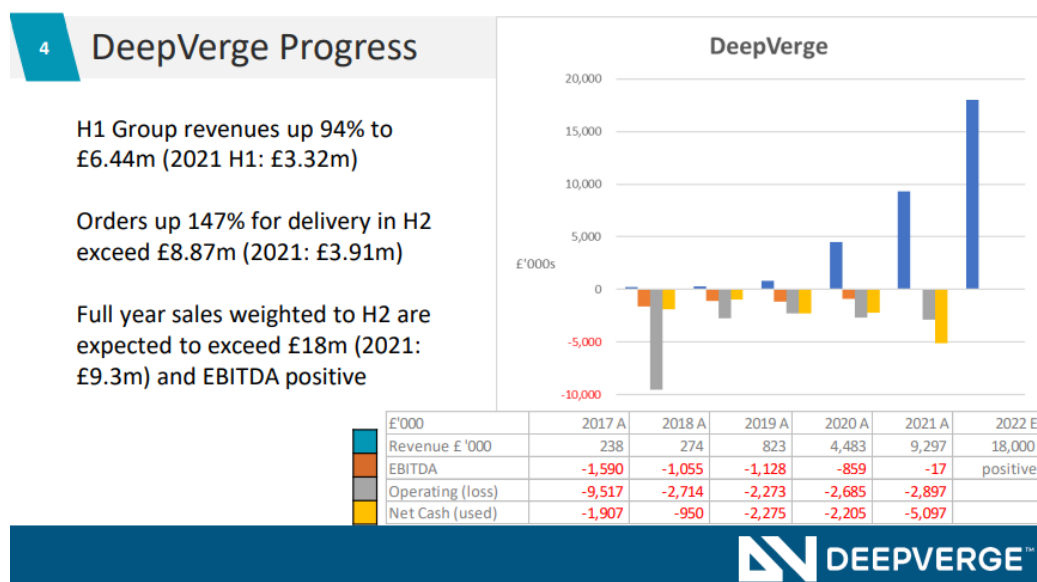
DeepVerge plc Statistic	Number or Value
Number of existing Ordinary Shares***	219,706,378
Number of placing shares to be issued	471,740,000
Number of Subscription shares to be issued	28,260,000
Maximum number of Broker Offer shares available for issue	125,000,000
Maximum number of ordinary shares the subject of the Broker Warrants and Broker Further Warrants**	62,500,000
Maximum number of placing Warrants	156,250,000
Number of Ordinary Shares in issue immediately following Third Admission*	844,706,378
Estimated net proceeds of the Placing receivable by the Group	£9.35m
Estimated net proceeds of the Broker Offer receivable by the Company**	£2.35m

\* Assuming no other Ordinary Shares are issued prior to completion of the Placing and the Subscription and the Broker Offer is taken up in full.

\*\* Assuming the Broker Offer is taken up in full, and all Placing Warrants exercised. \*\*\*As of 26 October 2022. Source: DeepVerge, [RNS of 27 October 2022](#)

### DeepVerge aims for its operations to become profitable and cash generative

Today's fund raising is expected to permit this without further recourse to shareholders. The Group's Trading Update of 5 August 2022 noted that "The Board conservatively expects revenue to be in excess of £18m for the full year to 31 December 2022, which is below current market expectations, leading to a smaller projected EBITDA figure, a modest reduction in gross margins and a slight increase in overheads." Today's announcement sustains this expectation along with the delivery of an EBITDA profit (2021: EBITDA loss £17,000) for the period. For 2023, the Board also states its expectation that continued growth in its core operations will see the Group become cash generative for the first time in the second half of that year. Furthermore, it notes that ongoing discussions continue relating to the future direction and opportunity of Labskin/Skin Trust Club, suggesting that different options ranging from partnering with larger sector related consumer enterprises or even a spin-out of the business may be considered.



Source: DeepVerge, Investor Presentation – October 2022

## DeepVerge's business model recognises a scalable, mass market opportunity

DeepVerge's management recognised the long-term global opportunity for environmental health solutions and the potential to introduce technology and services in support of human skin health tracking and monitoring. They successfully identified various businesses with unique, core and protectable operations that were failing to recognise or fully exploit the emerging opportunities. Various acquisitions, including Labskin (acquired in 2018) and Modern Water plc (acquired in 2019), fitted this description and have subsequently become core divisions within the Group. Key to this planning, however, was the transformation of existing operations based on relatively unscalable, low gross margin unit sales burdened by high levels of ongoing support, to much 'stickier', highly scalable partnered service solutions whose value-added data analysis, monitoring, AI plus consumables can enjoy a much higher gross margin, while also developing a degree of corporate interdependence over a typical 3-year contract duration leveraged through the Group's bacterial/viral/toxin knowhow. Now providing services to an extended list of global businesses, utilities and government departments, significant value has undoubtedly been created, albeit at the near-term expense of longer lead times and high upfront costs. Having seen Labskin seal its reputation as a leading diagnostics partner centred around data analysis, AI and comprehensive identification of bacteria/viruses/toxins, in 2021 management recognised significant opportunity to utilise its unique capabilities through the creation of Group's youngest division, Skin Trust Club.

DeepVerge has recently been particularly successful in converting an extended prospect pipeline into firm orders for delivery in FY2022. Interim results published on 22 September 2022 detailed a second half order book of £8.87m which has since expanded to c.£9.6m, evidenced by it concluding deals across China, South Asia, India, Africa and the US (as detailed in recent RNS announcements of 30 June, 18 July, 1 August, 13 September and 4 October). It has also detailed a substantial pipeline of projects under discussion plus trials and tenders amounting to a further £16.9m.

13

### Recent RNS announced orders and pipeline

Recently RNS	Amount – Date of RNS	Sales pipeline includes projects under discussion	
		<b>No guarantee is given that any will conclude</b>	
China/South Asia	£3.0m – 30 Jun 2022	AMBC units – additional sites	£2.0m
Middle East (Qatar)	£1.4m – 18 Jul 2022	More monitoring software/equipment	£0.8m
India and North Africa	£2.1m – 1 Aug 2022	AMBC units – through partner Ion Exchange	£1.8m
Blue Carbon (Georgia/NOAAA)	£2.4m – 13 Sept 2022	Blue carbon – additional sites	£3.5m
Military	\$810,000 – 4 Oct 2022	Skin plates/AI models/STC	£1.8m
US Skin Trust Club		Trials with Partners	£0.5m
Bids awaiting decisions in Q4		Tenders for new contracts with new customers	£6.5m



Source: DeepVerge, Investor Presentation – October 2022

## Modern Water - World class environmental health solutions

DeepVerge's environmental division now provides customers with networked solution sales to consortium sales channels providing last mile of water infrastructure to customers. These typically comprise contracts extending to around 3-years which are valued at between £1m and £2.4m across its range of networked equipment, service and consumables. Continuous toxicity monitoring provides real-time feedback on the state of water health from the source, with upgraded AI-based units incorporating software with the ability to detect more than 2,700 dangerous toxins and pathogens to provide a regulatory-approved early warning system. Modern Water's Microtox PD ('pathogen detection') units, for example, can positively detect a wide range of toxins such as E.coli bacteria in drinking water with 99.3% accuracy in 3.37 seconds, compared with several days for typical sample testing, offering real-time detection of multiple pathogens including COVID-19, in water and wastewater. The division presently commands an overall c.48% gross margin (which is capable of being lifted higher through additional software/analysis/AI), with recurring revenues being accrued through consumables, software licencing and monitoring contracts.

The business model is now considered internationally scalable, with recent contracts from China, India and North Africa encompassing customers that include a glue factory, dye factory, desalination, remediation work, adapting for data centres, cheese production waste streams, etc.

7 Selected Modern Water Clients



Source: DeepVerge, Investor Presentation – October 2022

DeepVerge’s Trading Update of 5 August 2022 noted the division’s recent spike in activity, highlighting £6.5m of orders secured to end of July, up 116% in one month (June 30 2022 RNS: £3m), in addition to which multiple £1m+ installation bids remain outstanding for site installations. One example of a recent contract won by Modern Water that demonstrates the environmental division’s capabilities was when its Microtox® systems were chosen to monitor water supply ahead of the 2022 FIFA World Cup in Qatar on 18 July 2022. This £1.4 million order was its first regional networked solution, then representing the largest single order in the Company’s 38-year history and a direct result of its strategic move away from equipment-only sales to supplying fully integrated regional monitoring solutions. For this, Modern Water is providing the Microtox® CTM monitoring equipment to Avanceon (PSX: AVN), a leading provider of industrial automation, process control and systems integration across three continents, which in turn will install the monitoring equipment on site.

19

## Case Study Modern Water Monitoring

**Modern Water solutions to monitor water toxicity and pollution in Qatar ahead of 2022 World Cup**

*Contract worth £1.4m*

- Networked 27 Microtox CTM Continuous Toxicity Monitoring units
- Last mile detection of water contamination with interface into Schneider (Wonderware) SCADA

*3-year project*

- Fully integrated network solution sale
- Design, build, equipment installation and commission
- Reagents/support over 3 years
- 50% Gross margin

Source: DeepVerge, Investor Presentation – October 2022

### Labskin - World class skin technology and services

Labskin delivers human skin microbiology B2B testing services to support product/R&D activities in the cosmetic, personal care, medical device, military and pharmaceutical sectors. Its model is a 3D human skin equivalent that incorporates vital biological components to model normal skin function. Developed over 15 years with more than 30 scientific journal publications, it is made from young keratinocytes (human skin cells) and adult fibroblasts (metabolically-active, collagen-producing human skin cells).

Labskin's virtual clinical trials with remote collection of human volunteers' skin microbiome, provides an economical collection solution to undertake lab-controlled trials of advanced skin models. As its data bank of remotely collected information grows, the higher accuracy and increased reliability of virtual product testing that results is assisting with elimination of early human trial and error testing, while also delivering a faster time to market. Labskin’s test platform and protocols help clients maintain an

optimum real-world environment, while testing new ingredients and existing product combinations to demonstrate a positive (or negative) impact on skin's natural microflora.

12 Selected Labskin Clients



Source: DeepVerge, Investor Presentation – October 2022

Working with top 20 global consumer health and skincare clients, thousands of industry tests identify the good and bad bacteria that naturally exists on Labskin when testing skin care, cosmetics, health care, drug delivery or wound care products. The Company's test platform and protocols, which help clients maintain an optimum real-world environment for monitoring to carbon credit standards testing, having generated sales of £2.4m to date in 2022. Labskin has recently combined its AI technology with Skin Trust Club software for a military project to continuously monitor biomarker micro-dosing of nuclear radiation:

18

Case Study  
Labskin  
Skin Trust  
Club

**Intelligence Advanced Research Projects Activity (IARPA) US Military**

Contract worth \$810,000

- Use Labskin and AI to identify micro-dosing of radiation in military personnel
- Use Skin Trust Club to regularly monitor biomarker micro-dosing of nuclear radiation

3-year project

- Working within the [Targeted Evaluation of Ionizing Radiation Exposure \(TEI-REX\)](#) with Berkeley CA & University of Columbia NY
- Additional supplies of Labskin (human equivalent skin) currently being shipped from UK laboratories
- Investment in New Castle, DA, US laboratories to provide future supplies

Source: DeepVerge, Investor Presentation – October 2022

### Skin Trust Club ('STC') - Personalised skincare and skin health tracking

Powered by Labskin, STC recognises the global potential for App-based and licensed skin health tracking products capable of servicing a range of giant international markets, ranging through cosmetics and wound healing through to detection in hazardous environments. Such has been the consumer interest in this unique product, that the Board has noted an unprecedented level of demand for its Home Test Kits. The extent was such that available capital clearly would not permit it to sustain investment required to satisfy current and anticipated demand, while also sufficiently adding to its available staff.

STC incorporates an artificial intelligence App that provide simple, at-home skin microbiome testing for personalised skincare and skin health tracking. The Home Test Kit's self-administered skin swab is a remote trial that allows participants to conduct each stage without interaction. This DNA Test generates a report that consumers can then use to manage their custom skincare regime.

Analysis of skin attributes provides information to create multiple bespoke product combinations to suit a person's unique skin microbiome. Developed for commercial partners as a route to market, this data driven experience provides the individual with a personalised shopping experience and the vendor with a data-driven platform for better product/marketing decisions. To date, 24 skin care clients have joined this marketplace offering over 300 different products, with a further 200 expected to be added shortly.

The fact that STC is presently receiving >87,000 visits to site/month and growing underlines the customer's desire for a more bespoke service to optimise their skin health and condition. STC presently has some 27,000 members, comprising c.80% female users of which 63% did not know their skin type on the outset despite which 42.5% recognised some form of skin condition. STC's software generates a high level of information, with c.1,700 data points per customer being generated. STC expects to generate in excess of £1m sales in 2022.

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