

Microsaic Systems plc

Microsaic confirms its acquisition of certain assets and intellectual property of the Modern Water business (the 'Acquisition') previously operated by the now delisted DeepVerge plc, the successful undertaking of a conditional equity fundraise (the 'Revised Fundraise') of c.£2.1m (gross) at 1.25p/share (representing a c.70% discount to the equivalent pre-consolidation closing mid-market price on 30 June 2023) and its restoration to trading on AIM. The net proceeds of the Revised Fundraise will be used to support the Group's working capital needs as enlarged by the Acquisition as well as to fund the £100,000 consideration for the Acquisition. The assets being acquired include equipment for laboratory-based manufacturing of bio-reagents and the IP/rights to its water-related testing operations, but exclude the subsidiary's voltammetry technology and facilities. Microsaic is also expected to discharge all intra-company debt (sum to be formally verified, although TPI estimates the outstanding sum owed by DeepVerge remains in excess of £1.3m) as part of the consideration for the Acquisition.

These actions follow the Group's rescheduled General Meeting of 29 December 2023, at which shareholders approved a total of five separate ordinary and special resolutions. These included a 625-to-1 share consolidation (in order to reduce the post-money share capital to more manageable levels) as a consequence of which the voting equity has been sub-divided into New Ordinary Shares of 0.001p plus Deferred Shares of 6.249p. Within this process, new Articles of Association were formally adopted to incorporate the latter's rights and restrictions. In connection with its Revised Fundraise, the Board was also granted authority to waive Pre-emption Rights in order to enable its issuance and allotment of Ordinary Shares. Further to publication of the Group's delayed 2022 Annual Report & Accounts ('AR&A') plus its Interim Results to 30 June 2023 first thing this morning, Microsaic's New Ordinary Shares were restored to trading on AIM at 7:30 a.m. today, Tuesday, 16th January 2024; following which, at 8:00 a.m., the shares issued pursuant to the Revised Fundraising were similarly Admitted.

Timetable of Microsaic principal events – Recent and scheduled

Event	Time and/or date
General Meeting	9.30 a.m. on 29 December 2023
Record date for the Share Consolidation and Sub-division	6.00 p.m. on 29 December 2023
Latest date for the announcement of the signing of the Acquisition Agreement	Prior to 3.30 p.m. on 15 January 2024
Publication of Annual Report and Interim Results	After the market close on 15 January 2024
Restoration of New Ordinary Shares to trading on AIM	7.30 a.m. on 16 January 2024
Admission of the shares pursuant to the Revised Fundraising to trading on AIM	8.00 a.m. on 16 January 2024
Latest date for share certificates over New Ordinary Shares to be dispatched	Within 10 days of Restoration and Admission

Source: Microsaic, [RNS of 15 January 2024](#)

Stock Data

Share Price:	1.40p
Market Cap:	£2.51m*
Shares in issue:	179.18m*
52 week high/low:	n/a

*Post-Placing numbers

Company Profile

Sector:	Electronic & Electrical Equipment
Ticker:	MSYS
Exchange:	AIM

Activities

Microsaic Systems plc ('Microsaic', 'MSYS', 'the Group') is a high technology company which develops micro-electronic instruments and analytical solutions, including point-of-need Mass Spectrometers ('MS'), designed to improve the efficiency of chemical and biological workflows.

Website: www.microsaic.com

5-year Share price performance



Source: [LSE](#)

Past performance is not an indication of future performance.

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Background to the Acquisition and Revised Fundraise

As was detailed on 26 June 2023, overdue trade receivables owed by DeepVerge to Microsaic as at 31 May 2023 amounted to c.£1.35m. With this largely remaining outstanding and in anticipation of DeepVerge's looming insolvency, on 3 November 2023 and further on 13 November 2023, the Group confirmed that despite being debt-free and having effected significant cost-cutting measures across all operations, in the absence of successfully concluding a near-term fundraise, its available cash runway was down to just a few weeks, meaning it would have to consider cancellation admission to trading of its shares on AIM.

Robert Moore, Microsaic's Acting Executive Chairman, accordingly released a Circular on 4 December 2023 that proposed several Resolutions, including an equity fundraising, to be voted upon at a General Meeting. Within this, the Directors noted that in the absence of these Resolutions becoming effective in the near term, they would need to consider whether it would be appropriate for the Group to cease trading and enter into a liquidation process. Subsequent announcements of 14th, 20th and 22nd December 2023, confirmed the Group had been evaluating a prospective acquisition opportunity which, in the Directors' view, has considerable merit and would enhance the prospects for the enlarged Group. The Acquisition opportunity was expected to support a larger fundraising to facilitate the continuation and initial subsequent growth of the enlarged Group. Having minimised cash burn, the Board has been able to extend its cash runway beyond December 2023, with a view to targeting completion of the revised minimum £1m (gross) fundraising (being an amount different to that defined in the Circular), with completion of the Acquisition intended early in the new calendar year.

Subsequently entering into an Exclusivity Period with DeepVerge on 22 December 2023 in respect of the potential purchase, Microsaic rescheduled its General Meeting to 29 December 2023, for which the Directors' unanimous recommendation for shareholders to vote in favour of the Resolutions was unchanged from that included in the Circular. The Board also noted that completion of the Revised Fundraise remained conditional upon, inter alia, the publication of both the Annual Report and the Interim Results, in order to be compliant with the requirements of the AIM Rules for Companies in terms of financial reporting. The Group's Annual Report and Interim Results were then published pre-market opening today, 16 January 2024, after it had entered into a binding agreement in respect of the Acquisition.

Accordingly, restoration of Microsaic's New Ordinary Shares to trading on AIM took place at 7:30 a.m. on 16 January 2024, with Admission of the shares pursuant to the Revised Fundraising being at 8:00 a.m. the same day.

Subject, amongst other things, to the Placing proceeding, Microsaic has agreed to award TPI, acting as the Group's broker and placing agent, warrants over c.30.7m New Ordinary Shares, exercisable in whole or in part at the Placing Price for up to 5:00 p.m. on the date that is 5 years from the date of Admission (the 'Broker Warrant').

In total the Placing Shares, which were oversubscribed by new and existing investors (including a fund operated by Premier Miton), will represent approximately 94.3% of the Group's enlarged issued share capital, assuming no Broker Warrant Shares are issued. Robert Moore, and Non-executive Director, Dr. Nigel Burton, subscribed for, in aggregate, 11.04m Placing Shares at the Placing Price, representing c.6.4% of the Placing Shares (similarly assuming no Broker Warrant Shares are issued).

Use of proceeds

Following publication of the Circular dated 4 December 2023, Microsaic's Board went on to announce the prospective acquisition of the Modern Water assets together with an associated Revised Fundraise. It considered that capturing more material growth through the enlarged business, which includes its potentially under-exploited, existing mass spectrometry activities complemented by a robust and innovative patent portfolio in cutting-edge technology designed and developed for "Industry 4.0" applications serving markets in diversified industries, human and environmental health, in tandem with those presented through the newly acquired water testing assets, would require access to additional capital. Due diligence on the Modern Water assets/operations of the water testing

business, including its ongoing activities and continuing customer base, was finalised on 8 January 2024, following which the Acquisition Agreement with DeepVerge was signed.

On 22 December 2023, Microsaic targeted a minimum Revised Fundraising of £1.0m, for which the net proceeds were to be deployed as follows:

- To satisfy the cash consideration in full for the Acquisition of the assets and business of the water testing business previously operated by Modern Water pursuant to the Acquisition Agreement; and
- To support the working capital needs of the Company as enlarged by the acquired business and to promote the integration of the newly acquired assets/business.

It has been proposed that the total proceeds of the oversubscribed Placing, which are estimated to be c.£1.8m net, (as well as monies to be received by the Group pursuant to the exercise, if any, of the Broker Warrants) will be used as a further working capital buffer and also in respect of certain growth initiatives – possibly including commercialisation of new products in ProteinID and PFAS detection through distribution partners, and other targeted opportunities in support of both the original MSYS business and the acquired operations (once restarted). Microsaic does, however, intend to maintain a low fixed cost base going forward, to the extent that it will continue to utilise outsourcing agreements (for example, to undertake equipment services in the field, product manufacturing, etc.)

Acquisition of Modern Water business previously operated by DeepVerge plc

Microsaic has worked closely with Modern Water and its parent company, DeepVerge, since 2021. It initially provided technical services, including mass spectrometry, to meet various water quality monitoring challenges together with R&D services. These were later expanded to include a framework agreement, including an initial contract worth £0.4m from Innovenn UK, another division of DeepVerge that instead focused on microbiology, skin models, and clinical testing solutions. A high level of operational synergy and interdependence were generated as their complementary technologies combined to deliver ground-breaking, real-time monitoring and detection capabilities. In this respect, Microsaic is highly familiar with the opportunities presented through Modern Water's water/wastewater business plan along with additional potential to provide biopharma preclinical/clinical testing (including its recently redesigned novel ProteinID technology) and monitoring of toxic per- and polyfluoroalkyl substances ('PFAS' or 'Forever Chemicals'). The European Commission, for example, is proposing to ban all such large, complex groups of synthetic substances that have been used in consumer products around the world since the 1950s, given that they are persistent, can be toxic, and can bioaccumulate in organisms, including people.

The Acquisition will provide Microsaic with access to high margin bio-reagents used in the installed base of Modern Water's Microtox® branded water testing machines. With DeepVerge having been unable to fulfil demand from its existing client base, Microsaic intends to restart manufacturing of the product range shortly, using a retained core technical team that brings significant expertise and client relations. This is expected to ease a current bottleneck and quickly provide valuable revenues, possibly including a c.€360,000 contract from Qatar that is being renegotiated as part of the transaction and due after equipment commissioning, as well as recommencing regular supply of reagents to its international installed base of users.

Significant historic investment and revenue generation

AIM-quoted Modern Water plc was acquired by DeepVerge in 2020 for £16m in an all-paper deal. By end-December 2019, however, this international and high-reputation business had accumulated total losses of c.£43m while generating annual turnover of c.£3m (which was then principally from consumables). Following its acquisition, DeepVerge transformed its operational structure from a manufacturing partnership to a service-based model, modernising its offering to include connected and AI-based semi-permanent installations capable of predictive and real-time alerts. Clearly presenting the highest business potential of all of DeepVerge's divisional portfolio, Microsaic has now acquired these same assets for just £100,000 cash plus working capital. Although DeepVerge never published its full year 2022 accounts, following restatement of works completed during the period under IFRS 15, on 17 April 2023 management nevertheless reported revenues for the period would likely be in the range of £7.7m

to £8.6m, while apparently also holding a forward order book for both Modern Water and its engineering subsidiary, Glanaco, that exceeded £10m. Unfortunately, we cannot now assume that the real picture was anything close.

Originally quoted on AIM in 2011, Microsaic's business plan centred around its development of patented, mobile and miniaturised mass spectrometry instruments. In terms of money invested over this period, the Group had accumulated c.£28m carried-forward losses by end-December 2021. Its core products presently include the compact MiD series of instruments designed to be fast and easy to use, but still capable of delivering high quality spectrum analysis. Full year 2022 accounts just published by Microsaic detail revenues of £1.57m, compared with the £0.91m recorded in FY2021, demonstrating the potential of this fledgling business area. Within this, DeepVerge comprised £1.29m (2021: £67k) and its subsequent default is considered the primary reason for both Microsaic and Modern Water floundering during 2023.

This will undoubtedly have damaged their reputations and, in some cases, may even have resulted in the void created being occupied by competing businesses. Nevertheless, the scale of the prospective international opportunity has recently been highlighted in releases/publications from various governmental agencies and health institutes that recognise both the important and convenience of long-term, anonymous tracking of COVID-19 and its variants plus other viruses/contaminants that can be offered through monitoring of wastewater across the developed world. In this respect, the real-time surveillance solution offered by Modern Water, when combined with advanced AI/predictive technologies, appears to lead the field in terms of enabling rapid identification and early resolution of local outbreaks ahead of their potentially progressing into uncontained pandemics. Modern Water could potentially find its detection solutions ideally positioned should, for example, western governments consider imposing a requirement for the full-time installation of such equipment at regional processing plants through national regulation.

Acquired Modern Water asset's product offering

Modern Water is expert in the design, development and provision of analytical instruments and technologies for monitoring toxicity in water, soil, food and industrial facilities. They can be operated at connected municipal, regional or local levels, in open or closed environments. Its systems use bioluminescent bacteria to perform biosensor testing that detects the presence of an exhaustive range of toxic substances, including bacteria and viruses. The Company's Microtox® products are the first and only acute toxicity reagent to be manufactured in an ISO9001 certified facility.

Biosensor tests using bioluminescent bacteria have been in use for more than 30 years and their capability in detecting toxic substances is well understood. They use the principle that certain strains emit light when healthy. When they are exposed to toxic substances, the amount of light emitted reduces, indicating both presence and concentration in a sample. Being industry-leading, Modern Water's technology is supported by numerous scientific and academic papers.

Its product range includes the Microtox® LX toxicity test system, which is an industry standard for laboratory-based rapid toxicity screening and analysis; Microtox® FX, which is a portable, acute toxicity analyser, along with the newer Microtox® CTM which is a site-based, broad range Continuous Toxicity Monitor. Available to users through a service agreement that can provide online connection, full-time monitoring and support plus supply of consumables, such contracts are found to be highly sticky and operate for extended durations.

Current trading and financial position

Having resolved the supply chain issues that hindered operations during 2022, Microsaic's MS production restarted in May 2023, with seven units shipped by the end of 2023 (compared with 5 in 2022 and 19 in 2021). Despite the significant cost reduction exercise announced on 3 November 2023, the Group remained an operating business, with access to sufficient resources (including external contractors) to maintain limited production and the continuation of existing trading relationships. At the end of 2023, it retained an equipment sales pipeline of approximately 19 units in addition to service and spares revenue.

Although it is unlikely that all of these prospective sales will become firm orders in the short-term, the Board considers that the Group's cost base, excluding costs attributable to remaining a public company, are at a level such that they can be supported by a similar level of unit sales to 2022 and 2023. With cash balances of roughly zero as of 31 December 2023, the minimum proposed Fundraise was intended to raise sufficient funds for it to remain public and to continue trading in the short-term, assuming only a low level of sales. The oversubscribed Revised Fundraise subsequently achieved, however, is expected to provide sufficient working capital to sustain and progress the enlarged operations, together with associated marketing plus an element of contingency. A downside sensitivity has also been analysed assuming no unit sales and income arising from contracted service revenue only, which supports the adoption of the going concern basis of preparation of the Annual Report.

A further modest cash inflow in the range of c.£250,000 may be received during 2024 in the event that the Group is successful in its latest R&D tax credit claim, although such benefit may be offset by other contingencies (including the possibility of a fine from the London Stock Exchange in relation to the timing of disclosure of the amount outstanding from DeepVerge plc).

(Risk warning: Future performance and forecasts are not a reliable indicator of future results.)

Full Year 2022 and unaudited 2023 Interim results

Microsaic's delayed 2022 AR&A were published first thing this morning before the market opening. Financial highlights for the period are detailed below:

- Total revenues increased 73% on the previous year to £1.57m (2021: £0.91m) of which DeepVerge comprised £1.29m (2021: £0.39m);
- Other operating income of £nil (2021: £67k);
- Operating expenses increased to £3.27m (2021: £2.48m) including costs in relation to the impairment of related party debt of £1.13m (2021: £nil);
- Adjusted EBITDA loss of £2.04m (2021: £1.77m (EBITDA before share-based payments and professional fees relating to corporate activities));
- Loss before tax of £2.53m (2021: £3.40m) after providing for:
 - Impairment of related party debt of £1.13m (2021: £nil);
 - Share-based payments of £0.23m (2021: £1.36m);
 - Depreciation and amortisation of £281k (2021: £199k);
 - Professional fees of £nil (2021: £66k) relating to corporate activities;
- Cash and cash equivalents at 31 December 2022 of £1.24m (2021: £3.46m).

Microsaic's unaudited Interim results for the six months ended 30 June 2023 were also published first thing this morning ahead of market opening. Highlights for the period, post period and summarised outlook are detailed below:

Highlights

- Unaudited revenues of £139k: a decrease of 81% on H1 2022 (£735k);
- EBITDA adjusted loss of £1,023k which is 55% higher than H1 2022 (£661k);
- Total comprehensive loss of £1,079k an increase of 53% compared to H1 2022 (£705k);
- Cash at 30 June 2023 was £587k (H1 2022: £2.56m);
- An agreement was signed with a new global technology distributor Avantor (via VWR International Ltd);
- Orders for 8 Units received for manufacture in H2 2023.

Post Period Events

- Technical issues with the testing of key components from suppliers holding up the manufacturing process are being resolved with up to 10 units now in final test or being

manufactured in H2 2023;

- Unit orders shipped in H2 (including one demonstration unit) increased to 6 with sales revenue invoiced at £262k by year end;
- July 2023: The DeepVerge plc announcement on 26 June 2023 about its dire financial position resulted in the outstanding debt of circa £1.3m to the Group not being settled. As a result, the Group's annual audited accounts could not be finalised and trading on AIM was then temporarily suspended on 3 July pending publication of the Group's annual audited accounts;
- September 2023: Gerry Brandon resigned as Executive Chairman on 25 September and was replaced by Bob Moore who was previously a non-executive director of the Group;
- October 2023: notice of redundancy was issued to all staff and notice given to close the Woking premises before year end;
- December 2023: After private financing initiatives failed to complete and after considering delisting from AIM and putting the Group into administration the Board engaged Turner Pope Investments to raise sufficient capital with the objective of restoration of its shares to trading on AIM and make an asset acquisition. A targeted acquisition saw the Group enter into an Exclusivity Agreement with DeepVerge plc to acquire certain assets of its Modern Water business. This is part of the Group's growth strategy to offer a wider range of technologies and a more comprehensive service by enhancing our equipment manufacturing and supply capabilities;
- January 2024: The Group announced it has executed an Acquisition Agreement with DeepVerge plc and its subsidiary, Innovenn UK Limited, to acquire certain assets comprising the Modern Water business for a total consideration of £100,000 payable at completion. The Group also announced that Turner Pope Investments has successfully secured conditional funding commitments to raise gross proceeds of circa £2.1 million through a placing of 169,000,000 New Ordinary Shares. Net proceeds of the Placing (being £1.8 million) are to be deployed to satisfy the acquisition and support the capital needs of the Group as enlarged by the acquired Modern Water business which will be restarted under Microsaic's ownership.

Outlook

- The Board looks forward to the conclusion of commercial testing of its novel ProteinID and PFAS detection technologies during 2024 and increased production of our core 4500 MiD® units. Assuming the refinancing of the Group and acquisition of Modern Water technology and assets is completed, Microsaic intends to deploy these acquired technologies together with our existing and newly developed products in a growing worldwide market.

Board Composition

Microsaic presently has two Board members: Robert Moore - Acting Executive Chairman and Dr. Nigel Burton - Non-Executive Director

The Group is expected to recruit at least one further independent non-executive director in the near term and at least one executive director in the short term, to ensure full compliance with Principles 5 and 6 of the QCA Corporate Governance Code. Robert Moore intends to return to his non-executive role as soon as practicable but remains committed to supporting the business through the anticipated near-term period of stabilisation while seeking to re-establish growth opportunities for the incoming executive.

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