

26 July 2023

## Final FY 2023 results

RUA Life Sciences final results for FY 2023 were in line with the earlier trading statement and reflect the costs associated with the development of its vascular and heart valve products, its cash-generative business segments, cash conservation and a higher R&D tax credit. We have previously noted the increasing tempo on the progress on the heart valve products and this continued in the results announcement. We explore further the reasons for its raised profile.

## FY 2023 results

[Our previous note](#) on RUA's preliminary results noted total Group revenues were ahead of our estimates driven by the growth in RUA Contract Manufacture revenues. Contract manufacturing revenues of £1,625k were 47% ahead of our estimates and drove total revenues to £2,179k (up 34% on FY 2022) or 4% ahead of our estimates. The FY 2023 Group cost of sales of £388k (£267k in FY 2022) was 20% below our estimates reflecting tight cash control while advancing its products. RUA's Group loss before tax for the year was marginally reduced to £2,322k (vs. £2,360k for FY 2022) and this was helped at the after-tax level by higher R&D tax credits of £319k compared to £293k in FY 2022. RUA's cash balance at YE 2023 was £1,484k compared to £2,963k at the previous year-end and in the announcement the Board made reference to the requirement for a fundraising to complete the clinical and GLP animal studies for the vascular graft product over the next year. This could come from a licensing/product acquisition transaction or share offering.

## Composite Heart Valve Rises

For about six months, RUA's announcements have included a commentary on the development of its heart valve product within the RUA Structural Heart division. We have observed and discussed in our notes the parallel development of RUA's two artificial heart valve prototypes containing either 100% polymeric (Elast-Eon), or composite (Elast-Eon-coated fabric) leaflets that open and close to allow blood flow in the same way as natural heart valves. Earlier in the year the two prototypes were being progressed in parallel and we have detected a preference for the composite leaflet-containing valve based on the recent data disclosed in the results. The body of this note explores this further and discusses the reasons why the composite heart valve profile may be rising in prominence in RUA's development portfolio.

## Valuation changed modestly

We have incorporated RUA's FY 2023 final results into our financials and (with respect to its year-end cash position and sales multiple) in our valuation. **Our valuation has reduced slightly to £120.3m or 542p per share** from £121.0m or 545p per share due to the lower cash balance, offset by higher revenues. While we will await the detail on the costs of the animal and clinical studies required to secure FDA approval of RUA's vascular graft, we would remind investors that a large (35%) component of our valuation comprises RUA Structural Heart, and this remains unchanged.

### Company Data

	RUA
EPIC	
Price (p)	29.03
52 weeks Hi/Lo	63.5p / 29p
Mkt Cap	£6.5m
ED Fair Value, per share	£120.3m / 542p
End 2023 cash	£1.48m
Avg. daily volume	18,923

### Share Price, p



Source: ADVFN

### Description

RUA Life Sciences PLC ('RUA') is incorporated in the UK and focused on the commercialization of its own world leading biostable co-polymer technology, Elast-Eon™. Elast-Eon is a basis for medical devices with improved clinical outcomes and durability. RUA has four divisions: RUA Biomaterials that receives the licensing and royalty fees from products based on Elast-Eon, RUA Vascular that is commercialising vascular grafts, and RUA Structural Heart, which is developing aortic heart valves and leaflet technology. In early 2020, the predecessor company (AorTech International) announced the acquisition of RUA Medical to retain the Vascular business collaboration and RUA Medical's integrated medical device design and manufacturing capabilities in the combined company.

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### Summary Financials

£'000s, y/e 31 March	2019A	2020A	2021A	2022A	2023A
Revenues	463	489	1528	1625	2179
Reported EBIT	-638	-941	-1551	-2352	-2306
Basic EPS (GBp)	-4.72	-5.55	-8.20	-9.32	-9.03
Net Assets	3000	2275	8506	6584	4683
Net Cash	2412	1976	5924	2963	1484

Source: Company historic data, ED estimates

## Upbeat on RUA Structural Heart

In recent announcements, RUA has chronicled the development of its heart valve product as a 100% polymeric leaflet artificial valve, to the dual evaluation of the polymeric valve prototype with a prototype that builds on RUA's expertise with surgically implanted fabric products and its biocompatible Elast-Eon coatings, to include a composite prototype where the business end (or valve leaflets) comprises of Elast-Eon-coated fabric leaflets.

The heart valve industry experienced a major issue with the Bjork-Shiley Heart Valve which was withdrawn after a small number of catastrophic failures due to the welds on the struts of the valve. As such, there is a nervousness around failure modes of valves, with slow failure not only acceptable but the norm, however a risk of sudden failure must be avoided. 100% polymeric artificial heart valves will have to travel an extra mile to convince both surgeons and medical device companies of their utility. It was therefore sensible for RUA to dual track a 100% polymeric leaflet valve coated with Elast-Eon and a composite Elast-Eon-coated fabric leaflet valve.

At RUA's preliminary results, the narrative on the performance of the composite prototype suggested to us at least, that it might be edging ahead of the polymeric valve and RUA's final results announcement seems to suggest a (which the announcement notes is patentable) level of performance of the composite valve beyond the initial expectations.

The biocompatible properties of both prototypes are conveyed by RUA's Elast-Eon coating (in the case of the composite prototype) of medical-grade fabric leaflets, so either product should not require the significant lifetime anticoagulant therapy to prevent the clotting that is associated with artificial heart valves. Biological heart valves – derived from the excised tissue or heart valves from animals – do not have the need for lifetime anticoagulant therapy but do have a much shorter useful life than artificial valves.

The industry has been chasing the panacea of an artificial heart valve that does not need lifetime anticoagulation but has the performance characteristics of a natural heart valve - without the risk of device failure or polymer delamination that has plagued other prototypes. That panacea has remained out of reach and patients and surgeons are left with artificial heart valves that perform a similar but lower-level efficacy function than a native valve, but needing anticoagulation, or an animal-derived valve sewn into a holder for implantation, that does not, but has a shorter life span.

From the detail in RUA's results announcement, we have concluded that the performance characteristics of RUA Structural Heart's composite heart valve prototype has the efficacy (as illustrated by the opening and closing pressure gradients, as well as the smaller size of a composite valve to achieve the same result as a mechanical valve) and the profile in RUA's accelerated wear testing to finally achieve the panacea of approximating the functions and life span of a native valve.

What is also very interesting is the statement in the results announcement that RUA's composite heart valve leaflets could be used in any heart valve manufacturers' replacement aortic heart valve frames, and we await further developments with interest.

### Consolidated Income Statement & Forecasts

£'000s, y/e 31 March	2019A	2020A	2021A	2022A	2023A
<b>IFRS Income Statement</b>					
Total revenue	463	480	1528	1625	2179
Total administration expense	-822	-1123	-2690	-3776	-4169
Other income (expense)	7	14	279	66	72
Depreciation & amortisation	-218	-193	-272	-313	-358
<b>Reported EBIT</b>	<b>-638</b>	<b>-941</b>	<b>-1551</b>	<b>-2352</b>	<b>-2306</b>
<b>Reported profit before tax</b>	<b>-609</b>	<b>-941</b>	<b>-1551</b>	<b>-2360</b>	<b>-2322</b>
Taxation		81	143	293	319
Basic EPS (p)	-4.72	-5.55	-8.20	-9.32	-9.03
Diluted EPS (p)	-4.72	-5.55	-8.20	-9.32	-9.03
Share count at end of period (basic) m	14.7	17.6	22.2	22.2	22.2

Source: Company historic data, ED estimates

NB From 2020 onwards, pro forma numbers of the combined AorTech and RUA Medical business are shown

### Consolidated Balance Sheet & Forecasts

£'000s, at y/e 31 March	2019A	2020A	2021A	2022A	2023A
<b>Assets</b>					
<b>Non-current assets</b>					
Tangible assets	1	5	1952	2597	2739
Goodwill			301	301	301
Intangible assets	448	255	574	521	470
Total non-current assets	449	260	2827	3419	3510
<b>Current assets</b>					
Trade and other receivables	238	258	949	1120	588
Cash and equivalents	2412	1976	6294	2963	1484
Total current assets	2650	2234	7328	4207	2153
<b>Total assets</b>	<b>3099</b>	<b>2494</b>	<b>10155</b>	<b>7626</b>	<b>5663</b>
<b>Equity and liabilities</b>					
<b>Equity</b>					
Ordinary shares	12574	12574	12949	1109	1109
Share Premium	4550	4550	11729	11729	11729
Retained earnings	-12208	-13024	-14475	-16542	-18545
Foreign exchange reserve					
Other reserve	-1916	-1825	-1697	-1552	-1450
Equity attributable to the company	3000	2275	8506	6584	4683
Total equity	3000	2275	8506	6584	4683
<b>Current liabilities</b>					
Trade and other payables	99	219	1016	410	255
Total current liabilities	99	219	1099	511	414
Total non-current liabilities			550	531	566
<b>Total equity and liabilities</b>	<b>3099</b>	<b>2494</b>	<b>10155</b>	<b>7626</b>	<b>5663</b>

Source: Company historic, ED estimates. From 2020 onwards, pro forma numbers of the combined businesses are shown.

<b>Consolidated Cash Flow Statements &amp; Forecasts</b>					
<b>£'000s, y/e 31 March</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>
Profit before taxation	-609	-897	-1594	-2360	-2322
Adjustment for:					
Depreciation & amortisation	218	194	272	312	358
Movements in working capital	-73	100	820	-400	483
Net cash generated by operating activities	-429	-438	-1414	-2353	-1146
<b>Investing activities</b>					
Capital expenditure on tangibles	-1	-5	-620	-904	-449
Capital expenditure on intangibles					
Acquisition of subsidiary	-139		-341		
Net cash used in investing activities	-133	2	-952	-912	-477
<b>Financing activities</b>					
Net proceeds from issue of shares	2552		6462		
Net cash from financing activities	2552		6684	66	132
Net cash from discontinued operations					
Cash & equivalents at beginning of year	422	2412	1976	6294	2963
<b>Cash &amp; equivalents at end of year</b>	<b>2412</b>	<b>1976</b>	<b>6284</b>	<b>2963</b>	<b>1484</b>

Source: Company historic data, ED estimates. From 2020 onwards, pro forma numbers of the combined business are shown.



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