

8 June 2023

FY 2023 Trading Update

RUA Life Sciences trading update included Group revenues and year-end cash position that were modestly ahead of our estimates, with other figures mostly in-line. There was also welcome regulatory news on RUA Vascular's experimental graft product and a divisional reorganisation.

Preliminary FY 2023 Results

RUA's preliminary Group revenues for FY 2023 increased by 34% to £2,179K (vs. £1,625k for the year to 31 March 2022) and were **4% ahead of our estimates**. This was driven by the 43% growth in contract manufacturing revenues in the business acquired with RUA Medical in 2020. The royalty and license fees in RUA Biomaterials were in-line with our estimates and grew 14% in the last year (compared to a 4% decline in FY 2022 due to the pandemic). **RUA's trading update highlighted the underlying profitability of its revenue-generating segments**, not least in RUA Biomaterials where patent maintenance costs are most of the expense. RUA's continued R&D investment in the business of RUA Vascular and RUA Structural Heart (where most of our valuation is concentrated) was £1,070K, ahead of FY 2022's £887K, while the other main moving parts – administration expense and R&D tax credits (which increase as R&D expense increases, albeit with a delay) – resulted in a loss before tax of between £2.3m to £2.4m; similar to that in FY 2022 and in-line with our estimates. RUA's cash balance has decreased from £2,963k at the end of FY 2022 to £1,484k a year later was **15% higher than FY 2023 estimate**.

Welcome regulatory and R&D progress

The highlight of RUA's trading update was **the agreement with the FDA** on the requirements for the GLP animal study and 120-patient clinical trial required to secure US approval of RUA's vascular graft. It is clear that RUA is **on a pathway to the US approval** of its vascular graft which should not be a surprise. RUA Contract Manufacture and RUA Biomaterials both have US customers with approved products. The trading update also provided detail on RUA's Structural Heart polymeric heart valve product, noting the high bar that heart valves need to reach in terms of their mechanical properties, durability and functionality. RUA's composite heart valve appears to be meeting these milestones and the current design was proposed as one that could be supplied to other companies.

Valuation unchanged

We await RUA's final FY 2023 results in mid-July to update our financials and valuation. For now, **our valuation remains unchanged at £121.0m or 545p per share**. We will include the costs of the animal and clinical studies required to secure FDA approval of RUA's vascular graft when they are available. The change from a product acquisition model to the Corcym distribution agreement and the improved multiples on RUA's revenue-generating businesses are not expected to result in a significant overall change.

Company Data

EPIC	RUA
Price (last close)	44p
52 weeks Hi/Lo	67p / 31p
Mkt Cap	£9.8m
ED Fair Value, per share	£121.0m / 545p
End H223 cash	£1.48m
Avg. daily volume	19,262

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 biostable surgical patches and grafts, and RUA Structural Heart, which is developing an artificial aortic heart valve replacement. 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.

Andy Smith (Analyst)

0207 065 2690
andy.smith@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk

Summary Financials

£'000s, y/e 31 March	2019A	2020A	2021A	2022A	2023E
Revenues	463	489	1528	1625	2098
Reported EBIT	-638	-941	-1551	-2352	-2465
Basic EPS (GBp)	-4.72	-5.55	-8.20	-9.32	-9.63
Net Assets	3000	2275	8506	6584	4273
Net Cash	2412	1976	5924	2963	1295

Source: Company historic data, ED estimates

Vascular and Structural Heart Subsidiaries

In a subsequent announcement, RUA provided the details of a reorganisation of the Group resulting in its key experimental product businesses – RUA Structural Heart Limited and RUA Vascular Limited – into **stand-alone subsidiaries 100% owned by the Group**. We applaud this move on a transparency basis which fits with the trading update's reporting on the segmented sales and net profit margins of RUA's revenue-generating businesses, RUA Biomaterials and RUA Contract Manufacture. We would caution investors not to jump to the conclusion that one or more of RUA's segmented divisions could be divested despite the illustrative basis of our valuation being as whole-product acquisitions. Instead, as the timelines for the vascular graft and heart valve products are different, the hive down of the two businesses allows the value and risks of each to be appreciated and provides visibility on where any possible future fundraisings are invested.

Consolidated Income Statement & Forecasts

£'000s, y/e 31 March	2019A	2020A	2021A	2022A	2023E
IFRS Income Statement					
Total revenue	463	480	1528	1625	2098
Administration expenses	-822	-1123	-2690	-3315	-3898
Other income (expense)	7	14	279	66	66
Depreciation & amortisation	-218	-193	-272	-313	-400
Reported EBIT	-638	-941	-1551	-2352	-2465
Reported profit before tax	-609	-941	-1551	-2360	-2465
Taxation		81	143	293	328
Basic EPS (p)	-4.72	-5.55	-8.20	-9.32	-9.63
Diluted EPS (p)	-4.72	-5.55	-8.20	-9.32	-9.63
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	2023E
Assets					
Non-current assets					
Tangible assets	1	5	1952	2597	2543
Goodwill			301	301	301
Intangible assets	448	255	574	521	495
Total non-current assets	449	260	2827	3419	3339
Current assets					
Trade and other receivables	238	258	949	1120	681
Cash and equivalents	2412	1976	6294	2963	1295
Total current assets	2650	2234	7328	4207	2044
Total assets	3099	2494	10155	7626	5383
Equity and liabilities					
Equity					
Ordinary shares	12574	12574	12949	1109	1109
Share Premium	4550	4550	11729	11729	11775
Retained earnings	-12208	-13024	-14475	-16542	-18889
Foreign exchange reserve					
Other reserve	-1916	-1825	-1697	-1552	-1552
Equity attributable to the company	3000	2275	8506	6584	4273
Total equity	3000	2275	8506	6584	4273
Current liabilities					
Trade and other payables	99	219	1016	410	397
Total current liabilities	99	219	1099	511	536
Total non-current liabilities			550	531	575
Total equity and liabilities	3099	2494	10155	7626	5384

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

Consolidated Cash Flow Statements & Forecasts					
£'000s, y/e 31 March	2019A	2020A	2021A	2022A	2023E
Profit before taxation	-609	-897	-1594	-2360	-2465
Adjustment for:					
Depreciation & amortisation	218	194	272	312	174
Movements in working capital	-73	100	820	-400	279
Net cash generated by operating activities	-429	-438	-1414	-2353	-1666
Investing activities					
Capital expenditure on tangibles	-1	-5	-620	-904	-94
Capital expenditure on intangibles					
Acquisition of subsidiary	-139		-341		
Net cash used in investing activities	-133	2	-952	-912	-112
Financing activities					
Net proceeds from issue of shares	2552		6462		
Net cash from financing activities	2552		6684	66	110
Net cash from discontinued operations					
Cash & equivalents at beginning of year	422	2412	1976	6294	2963
Cash & equivalents at end of year	2412	1976	6284	2963	1295

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



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA, but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its Directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors and employees, will not be liable for any loss or damage arising from any use of this document, to the maximum extent that the law permits.

More information is available on our website www.equitydevelopment.co.uk

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690