

Review of interims, issue, and strategic update

18 December 2023

RUA have announced its interim results ending 30 September 2023 and together with the previous trading update, strategy update and fundraising announcement, there were few surprises. With the fundraising completed our model indicates a pathway to profitability and we publish our nearer-term financial forecasts out to YE 2025. Following on from RUA's strategy update, we have also adjusted our valuation.

Interim results

As previously announced in its trading update, RUA's interim results suffered from the delay in revenues from a single Contract Manufacturing customer. Although, as we pointed out in [our previous note](#), interim and annual results are financial snapshots and the Contract Manufacturing revenue shortfall in H1 has since been reversed with revenues from that customer now in line with budget. As a result, H1 2024 Group revenue decreased by 28% to £794k (vs. £1,104k in H1 2023), operating losses increased by 20% to £1,360k (vs. £1,136 in H1 2023) but post-tax losses decreased to £1,010k (vs. £1,143k in H1 2023) thanks to R&D tax credits. As well as the post-period catch-up in Contract Manufacturing revenues, there was also good news in RUA's Biomaterials divisional sales where royalty and fee income increased by 6% to £199k (vs. £187k in H1 2023). The end of December cash position (which was £493k compared to £1,484 in H1 2023) is now academic, partly because the R&D tax credits increased the cash balance to £900k, but also because the recent fundraising has bolstered RUA's cash position which we estimate will be nearly £4.5m at YE 2024.

Strategic changes affect value of activities

RUA's recent strategy update, and its interim results, re-iterated the change of strategy from developing its own products all the way to the market, to developing RUA's vascular graft and heart valve products in collaboration with external parties. RUA and its vascular graft collaborators will share the (mainly clinical) development costs now needed to reach the market which will dramatically reduce RUA's R&D costs and accelerate its path to profitability. We have changed our valuation to reflect this since some of the resulting sales and royalties will be absorbed by RUA's partners in exchange for funding the clinical and regulatory costs. We have used our previous risk-adjusted values for RUA's heart valve and vascular graft products, which were to £42m and to £74m, respectively, but applied a 50% discount to reflect the cost and revenue sharing with partners. This results in a **£56m valuation for RUA's products**. Our previous **£3.3m revenue multiple-based valuation for RUA's revenue-generating businesses** remains unchanged.

Valuation adjusted for fundraising

In addition to the product valuation changes reflecting RUA's strategy update, we have incorporated the cash raised and the shares issuance into our valuation. As a result, our fair value has changed from £120.3m or 542p per share to **£65.5m or 106p per share**.

Company Data

	RUA
EPIC	
Last Price (11 th Dec)	11.2p
52 weeks Hi/Lo	67p / 11p
Mkt Cap (post issue)	£7.0m
ED Fair Value, per share	£65.5m / 106p
Est. end Dec '24 cash	£4.4m
Avg. daily volume	329,381

Share Price, p



Source: ADVFN

Description

RUA Life Sciences PLC ('RUA') is 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, RUA Structural Heart, which is developing aortic heart valves and leaflet technology, and RUA Contract Manufacture, a textile implantable specialist offering an end-to-end service for third parties within the life sciences industry.

Summary Financials

£'000s, y/e 31 March	2021A	2022A	2023A	2024E	2025E
Revenues	1528	1625	2179	2250	3300
Reported EBIT	-1551	-2352	-2306	-2048	-1130
Basic EPS (GBP)	-8.20	-9.32	-9.03	-2.80	-1.30
Net Assets	8506	6584	4683	7828	6755
Net Cash	5924	2963	1484	4019	3392

Source: Company historic data, ED estimates

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Amended strategy and fundraising interlinked

Just as RUA's interim results were an unflattering snapshot of its cash position and revenues, post the period end, the picture has dramatically changed. With the recognition of significant R&D tax credits and the completion of the equity raise, we estimate that RUA's YE 2024 cash balance will be around to £4.5m.

This is important since with negotiations ongoing with potential partners on its heart valve and vascular graft products, RUA is in a much better position to demand better terms than it could have prior to the bolstering of its cash position. As a result, our 50% discount versus our previous valuation of RUA's heart valve and vascular graft products may be too harsh, although we await any deal terms before reviewing this again.

In addition, RUA's trading update and interim results noted significant progress on new contracts in its contract manufacturing revenue-generating business, plus a second-half weighting, which may also mean that our valuation of that component is behind 'the times'. With plenty of time before RUA's FY 2024 results, we shall again await more visibility on these contracts before upgrading the value of RUA's expected revenue streams.

Our expectation is that licensing transaction discussions for RUA's products have been ongoing and the fundraising has been completed to make the likelihood of much better terms much more likely. Thus, RUA's recent strategy update and the fundraising are linked and validating transactions can now be looked forward to.

RUA's interim results have allowed us to publish our forecasts to FY 2025 and beyond this, which concur with the Board's expectations of being on a pathway to profitability. Furthermore, should any of the licensing transactions include an upfront payment or equity investment, these upsides are not included in our forecasts.

Consolidated Income Statement & Forecasts

£'000s, y/e 31 March	2021A	2022A	2023A	2024E	2025E
IFRS Income Statement					
Total revenue	1528	1625	2179	2250	3300
Total administration expense	-2690	-3776	-4169	-3518	-3568
Other income (expense)	279	66	72	35	35
Depreciation & amortisation	-272	-313	-358	-370	-370
Reported EBIT	-1551	-2352	-2306	-2048	-1130
Reported profit before tax	-1551	-2360	-2322	-2118	-1130
Taxation	143	293	319	381	323
Basic EPS (p)	-8.20	-9.32	-9.03	-2.80	-1.30
Diluted EPS (p)	-8.20	-9.32	-9.03	-2.80	-1.30
Share count at end of period (basic) m	17.7	22.2	22.2	62.1	62.1

Source: Company historic data, ED estimates that include the December 2023 equity issue.

Consolidated Balance Sheet & Forecasts

£'000s, at y/e 31 March	2021A	2022A	2023A	2024E	2025E
Assets					
Non-current assets					
Tangible assets	1952	2597	2739	2621	1952
Goodwill	301	301	301	301	301
Intangible assets	574	521	470	423	381
Total non-current assets	2827	3419	3510	3345	2634
Current assets					
Trade and other receivables	949	1120	588	755	785
Cash and equivalents	6294	2963	1484	4413	3757
Total current assets	7328	4207	2153	5318	4692
Total assets	10155	7626	5663	8663	7325
Equity and liabilities					
Equity					
Ordinary shares	12949	1109	1109	4849	4849
Share Premium	11729	11729	11729	12288	12288
Retained earnings	-14475	-16542	-18545	-16241	-17314
Foreign exchange reserve					
Other reserve	-1697	-1552	-1450	-1450	-1450
Equity attributable to the company	8506	6584	4683	7828	6755
Total equity	8506	6584	4683	7828	6755
Current liabilities					
Trade and other payables	1016	410	255	350	255
Total current liabilities	1099	511	414	497	255
Total non-current liabilities	550	531	566	365	365
Total equity and liabilities	10155	7626	5663	8690	7375

Source: Company historic, ED estimates that include the December 2023 equity issue.

Consolidated Cash Flow Statements & Forecasts					
£'000s, y/e 31 March	2021A	2022A	2023A	2024E	2025E
Profit before taxation	-1594	-2360	-2322	-2118	-1330
Adjustment for:					
Depreciation & amortisation	272	312	358	370	50
Movements in working capital	820	-400	483	483	454
Net cash generated by operating activities	-1414	-2353	-1146	-623	-639
Investing activities					
Capital expenditure on tangibles	-620	-904	-449	-100	-30
Capital expenditure on intangibles					
Acquisition of subsidiary	-341				
Net cash used in investing activities	-952	-912	-477	-140	-30
Financing activities					
Net proceeds from issue of shares	6462				
Net cash from financing activities	6684	66	132	3736	
Net cash from discontinued operations					
Cash & equivalents at beginning of year	1976	6294	2963	1484	4413
Cash & equivalents at end of year	6284	2963	1484	4413	3757

Source: Company historic data, ED estimates that include the December 2023 equity issue.



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