

Christmas comes early - Fundraising and Interims

16 December 2020

Please note that our note on 14th December regarding RUA's conditional Placing and Open Offer used an incorrect share count, now amended in this version. Our valuation of the company, assuming a full raise of £7m, is unchanged from the earlier note at £115.2m but the fair value per share is adjusted to reflect new share issuance. Upon completion of the issues, RUA will have the resources to accelerate the development of its products, on which much of our valuation has been based.

Fundraising provides additional resources

The issues require shareholder approval at a GM on 30 December 2020. Even after the year we have all been through, an issue price of 120p represents a hefty 32% discount to RUA's price just before the announcement. Price volatility has, however, been a common experience of AIM-listed stocks raising money before the end of the year at a time of ongoing macro uncertainty. Existing shareholders will have the opportunity to participate in the fundraising via the (3-for 59-existing shares) Open Offer. The fundraising will put RUA in a **significantly stronger position** for its partnering discussions on its patch and graft products next year.

Interim results

Revenues for the six months to 30 September 2020 were £631,000, split £416,000 and £215,000 between RUA Medical and polymer licensing fees. Since the acquisition of RUA Medical and its revenues earlier in the year these figures are not directly comparable, although H1 2020 royalty and licensing fees were £299,000. We have not changed our FY 2020 revenue estimate of £1,933,000: in part because RUA's £239,000 in other income (compared to £6,000 in H1 2020) from grants was higher than the previous year and is likely to offset any pandemic shortfall (as was its objective).

Expenses, whilst being tightly controlled as in recent years, have increased to reflect the combined effects of an increased pace of investments in its products, and the larger cost base of RUA Medical. Administration expenses increased to £1,181,000 (£415,000 in H1 2020) to reflect these investments and we remain comfortable with our FY 2021 £2,590,000 administration expense estimate. RUA's loss before tax increased to £622,000 (£239,000 H1 2020) and the end of September's £1,009,000 cash position has now been rendered academic by the fundraising.

Valuation updated for new funds and progress

We have updated our valuation for the expectations of the full amount raised by the conditional placing and Open Offer, increased share count, and our forecast for FY21 revenues of RUA Medical revenues (now that they are incorporated into those of RUA Life Sciences).

Our valuation of RUA moves to £115.2m, equating to 523p per share.

Summary Financials					
£'000s, y/e 31 March	2017A	2018A	2019A	2020A	2021E
Revenues	614	404	463	489	1933
Reported EBIT	-237	-34	-638	-941	-1311
Basic EPS (US c / UK p)	-4.26c	-0.61c	-4.72p	-5.55p	-7.66p
Net Assets	1318	1016	3000	2275	9089
Net Cash	114	422	2412	1976	6924

Source: Company historic data, ED estimates on completed issue

Company Data

EPIC	RUA
Price (last close)	134p
52 weeks Hi/Lo	177p / 57p
Mkt Cap (pre-GM)	£22m
ED Fair Value, Per share	£115.2m / 523p
Proforma FY21 net cash	£6.92m
Avg. daily volume	56,980

Share Price, p



Source: ADVFN

Description

RRUA 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.

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More visibility on product developments

RUA H1 2020 interims provided some new timelines and additional hints of heart valve products still to come. RUA's investments in its pipeline have already resulted in tangible progress with the earlier announcement on heart valve development. The interim announcement for the first time provided RUA's expectations for the regulatory submissions of its vascular grafts, cardiac and vascular patches in the second quarter or 2021.

In addition, and again for the first time, RUA has hinted at the potential for subsequent versions of its biocompatible flexible tri-leaflet valves that could be implanted minimally invasively via a catheter (transcatheter arterial valve implantation, or TAVI), rather than during open heart surgery. Investors will recognise the cost and mortality advantages of a TAVI, rather than an open-heart procedure.

Revenue outlook

The pandemic has not been kind to medical device companies with products that are implanted during elective surgical procedures. RUA had flagged this impact on its Elast-Eon royalty and license fee business (RUA Biomaterials), and from lowered demand at RUA Medical's customers.

RUA were fortunate to be awarded a business continuity award from the Scottish government and their interim announcement noted the resumption of orders by RUA Medical customers at pre-COVID levels. Forward orders appear to include an element of 'catch-up' which for the moment we have not yet incorporated into our financials.

Use of proceeds

The net proceeds of the fundraising, once approved by shareholders, will be used to fund the accelerated development of RUA's biostable tri-leaflet aortic heart valve replacement through to the human trials that are required for regulatory approval. In addition, the new funds will also be used to advance the development of RUA's minimally invasive heart valve (TAVI), and scale-up of the Group's graft and patch manufacture in order to meet future demand.

Consolidated Income Statement & Forecasts

£'000s, y/e 31 March	2017A	2018A	2019A	2020A	2021E
IFRS Income Statement					
Total revenue	614	404	463	489	1933
Administration expenses	-559	-474	-822	-1123	-2590
Other income (expense)		255	7	14	14
Depreciation & amortisation	-292	-219	-218	-193	-200
Reported EBIT	-237	-34	-638	-941	-1311
Reported profit before tax	-237	-34	-609	-897	-1787
Taxation				81	100
Basic EPS (c before 2019, p after 2019)	-4.26	-0.61	-4.72	-5.55	-7.66
Dil'd EPS (c before 2019, p after 2019)	-4.26	-0.61	-4.72	-5.55	-7.66
Share count at end of period (basic)	5,557,659	5,557,659	14,686,608	14,686,608	22,081,130

Source: Company historic data, ED estimates assuming full raise
 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	2017A	2018A	2019A	2020A	2021E
Assets					
Non-current assets					
Tangible assets			1	5	1481
Goodwill					1352
Intangible assets	914	527	448	255	55
Total non-current assets	914	527	449	260	2888
Current assets					
Trade and other receivables	392	134	238	258	483
Cash and equivalents	114	422	2412	1976	6924
Total current assets	506	556	2650	2234	7407
Total assets	1420	1083	3099	2494	10295
Equity and liabilities					
Equity					
Ordinary shares	15189	12118	12574	12574	19649
Share Premium	3133	2500	4550	4550	5975
Retained earnings	-2511	-11599	-12208	-13024	-14710
Foreign exchange reserve	8752				
Other reserve	-23245	-2003	-1916	-1825	-1825
Equity attributable to the company	1318	1016	3000	2275	9089
Total equity	1318	1016	3000	2275	9089
Current liabilities					
Trade and other payables	102	67	99	219	818
Total current liabilities	102	67	99	219	818
Total non-current liabilities					
Total equity and liabilities	1420	1083	3099	2494	10296

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

Consolidated Cash Flow Statements & Forecasts					
£'000s, y/e 31 March	2017A	2018A	2019A	2020A	2021E
Profit before taxation	-237	-34	-609	-897	-1787
Adjustment for:					
Depreciation & amortisation	292	219	218	193	200
Movements in working capital	-212	162	-73	100	425
Net cash generated by operating activities	-200	347	-429	-438	-1162
Investing activities					
Capital expenditure on tangibles			-1	-5	-290
Capital expenditure on intangibles		-16			
Acquisition of subsidiary			-139		-600
Net cash used in investing activities		-16	-133	2	-890
Financing activities					
Net proceeds from issue of shares			2552		7000
Net cash from financing activities			2552		7000
Net cash from discontinued operations					
Cash & equivalents at beginning of year	314	91	422	2412	1976
Cash & equivalents at end of year	91	422	2412	1976	6924

Source: Company historic data, ED estimates assume full raise. From 2020 onwards, pro forma numbers of the combined AorTech and RUA Medical business are shown



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