

12 December 2022

Messages from the interim results

RUA Life Sciences' interim results include in-depth updates on the development of its vascular graft and aortic heart valve products. They also provide more detail on its cash-generative businesses which together are now segmented into Vascular, Structural Heart, Biomaterials and Contract Manufacture. For the latter two, a 56% increase in revenue compared to the same six-month period in 2021 left our previous FY 2023 forecasts of total revenue and cash looking a bit anaemic with the Board's expectations of a second-half weighting for biomaterials revenues, contract manufacturing revenues, and the R&D Tax Credits still to be received.

Contract manufacturing powers ahead

Revenues from RUA's two cash-generative businesses were ahead on the same six-month period of last year and led by RUA's contract manufacturing business sales which grew by 66% to £917k compared to H1 2022's £552k. This was a result of both price and volume increases. In medical devices, price increases are a welcome rarity while the volume increases – that correspond to the increased YTD 2022 sales of other medical device manufacturers – are as a result of recovering surgical procedures in the US and stock-build in the EU. The former is anticipated to continue growing in H2 2023.

Investment in RUA's vascular products continued in H1 2023, increasing by 16% while expenditure on its heart valve product decreased by 9% over the same six-month period in 2021. The investment in the large bore vascular grafts is particularly important since it facilitates RUA's clinical trial that with a six month follow-up duration is expected to demonstrate the beneficial properties of an Elast-Eon™-sealed graft in a 510k regulatory process, without the cost and time implications of a PMA process. The higher investment within RUA Vascular was offset by the higher contract revenues and **heroic working capital management** to result in a 13% reduction in group loss (£1,143k vs. £1,311 in H1 2022). This is before the £328k in R&D Tax Credits, which have yet to be received.

RUA's cash and equivalents at the end of H1 2023 were £2,509k (vs. £2,963k at the end of FY 2022) and, thanks to the higher revenues, working capital management and R&D Tax Credits, looked likely to trounce our previous FY 2023 estimate, which has now been adjusted.

Valuation unchanged, for now

The culmination of higher revenues and working capital control highlighted changes that needed to be made to our revenue and YE 2023 cash estimates. These are incorporated into our financials but since the bulk of our valuation remains in RUA products in development, **our valuation remains unchanged at £121.0m or 545p per share**. We await updates in 2023 on the timings of the vascular graft clinical study and at RUA Structural Heart.

Company Data

EPIC	RUA
Price	33.0
52 weeks Hi/Lo	137p / 31p
Mkt Cap	£7.4m
ED Fair Value, per share	£121.0m / 545p
End H123 cash	£2.51m
Avg. daily volume	10,217

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.

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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 estimate

Products progress

While the most interesting product update was on RUA's Elast-Eon™-enabled replacement aortic heart valve, the nearer-term developments on RUA's large-bore vascular grafts were perhaps more important. Preparations continue for the clinical trial that is hoped to offer vascular surgeons the benefits of a large-bore vascular graft with lower inflammation and much less adhesion (scar tissue that forms between a graft and the surrounding tissue). The trial will involve a six-month follow-up period and then a 510k application, without having to wait for the longer and more expensive pre-market approval (PMA) process. At least as important is RUA's comment that it is exploring funding at least part of the clinical stages through non-dilutive funding routes and grants.

On RUA's replacement aortic heart valve, investors will remember that two prototypes were being tested *in vitro* and the interim statement provided hints that the Elast-Eon™-coated leaflet valve was edging ahead of the prototype with 100% Elast-Eon polymer leaflets.

Right place, right time

RUA's royalty and contract manufacturing revenues represent a small part of our valuation for the group. The larger aspects are the future revenues from the development of its large bore vascular grafts and heart valve products. While our notes and RUA's announcements this year have detailed the progress of its vascular grafts, its heart valve product has also been progressing at an earlier stage. The backdrop of deals in the medical device sector continues to be supportive with Johnson & Johnson's recent \$16.6bn acquisition of Abiomed for its Impella implantable heart pump. While not directly a heart valve, Impella is a tube-like pump that is inserted into the heart and major blood vessels feeding it and was developed in Europe. The Abiomed acquisition therefore reinforces our thesis that the big medical device companies remain very interested in acquiring innovative cardiovascular devices like RUA's vascular grafts and heart valve.

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.



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