

Commercialisation partnership signed

25 January 2023

RUA Life Sciences have announced an exclusive global commercialisation partnership for the distribution of their large-diameter vascular grafts. RUA's partner is the proven cardiovascular medical device company Corcym SRL which has a commercial presence in over a hundred countries. We expect to change our valuation of the RUA Vascular products – because this is a global distribution agreement whereas we previously valued the divestment of the products – but we explain below why we do not expect the valuation to decrease.

An ideal commercial partner for a big market

RUA's global commercialisation partner for its range of large bore vascular grafts has been announced as Corcym SRL. Corcym is the heart valve business bought out from Sorin/Livanova in 2021 and is a specialist cardiovascular medical device company with complementary products – like sutureless/minimally invasive aortic valves, mechanical heart valves, aortic prostheses and mitral valves and repair devices. RUA Vascular's products for straight and aortic root grafts will **fit perfectly into Corcym's catalogue of products servicing the needs of heart surgeons** that are sold in over one hundred countries.

This transaction with a proven cardiovascular specialist **provides RUA with significant validation** and should banish the cloud that hovered over RUA since its regulatory stumble on the 510(k) submission for its large bore vascular graft. We estimate that the cost of establishing a cardiovascular sales network for the US alone would have been in excess of \$10 million. The details released on the transaction note the sharing of gross margin on global sales equally between RUA and Corcym. Investors will remember the investments that RUA has made in clean room manufacturing capacity which we had assumed at the time were not just for clinical trial supplies, but eventually for commercialisation. With the deal in place, it appears that RUA's manufacturing capacity will be matched to Corcym's global commercialisation network.

Valuation to be refreshed

For the moment, **our valuation remains unchanged at £121.0m or 545p per share** but we expect to update this shortly taking into account RUA's new commercialisation agreement. With the drivers of a large market, a shorter time to cash flows but over an extended period, a lowered risk-adjustment thanks to the partnership, it is unlikely that our valuation of RUA Vascular's products will come down.

Company Data

EPIC	RUA
Price yesterday close	46p
52 weeks Hi/Lo	62p / 31p
Mkt Cap	£10.2m
ED Fair Value, per share	£121.0m / 545p
End H123 cash	£2.51m
Avg. daily volume	41,042

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.

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

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Valuation implications

Our current risk-adjusted valuation of RUA's vascular products is £74m and was based on the sale of RUA Vascular in 4 years with a target rate of return of 9% and a 46% risk adjustment. Now RUA have signed a commercialisation agreement, and with RUA anticipating regulatory approvals starting in 2025, a number of these key valuation drivers have changed, not the least being the distribution agreement and sharing of gross margin. By way of illustration of the market potential, there are about 400,000 coronary arterial bypass graft (CABG) surgeries performed each year in the US alone (where large bore aortic grafts can be implanted) and independent estimates of the global value of vascular graft market in 2021 were between \$1.7bn and \$5.4bn. RUA estimates that the global market for their pipeline products to be around \$1 billion. In addition, an aging population including those having previous CABG procedures who are ineligible for harvested venous or arterial conduits, suggests growth market dynamics that we will capture when we revise our valuation.

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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