

'The transformation continuum'

14 July 2020

Following the acquisition of RUA Medical Devices Limited by AorTech International plc, the combination has released their first set of final results under the company's new banner of 'RUA Life Sciences plc'. The name change has not been the only transformation as RUA is now a fully integrated medical device company with FY 2020 revenues of £489k, a cash balance as at 7 July 2020 of £1.5m, plus much more to come in product development news in FY 2021.

FY 2020 Results

Licence fees and royalties from the legacy business, now known as RUA Biomaterials, increased 5.6% to £489k (vs. £463k for the year to March 2019) – not significantly different to our £490k estimate. Administration expenses, which included R&D for the products in development in the RUA Vascular and RUA Structural Heart divisions as well as patent maintenance costs in RUA Biomaterials, increased 36.6% to £1,123k (vs. £822k in FY 2019) as these products progressed through animal implantation towards clinical trials and regulatory approval.

The R&D expenditure increased the FY 2020 operating loss to £941k compared to £638k in FY 2019. Yet the addition of £81k in R&D tax rebate and £44k in finance income (£0 and £29k in FY 2019) resulted in the net loss only increasing by 34.0% or £816k in FY 2020, compared to £609k in FY 2019. RUA Life Sciences' cash balance was £1,976k at the end of FY 2020 (compared to £2,412k at end FY 2019) and £1,507k on 7 July 2020 after the costs of the RUA Medical acquisition. We forecast RUA's cash runway will extend into 2022 and would anticipate a fund-raising based on positive product development news before then.

Many moving parts and product developments

RUA Medical also brings significant customer revenues to RUA Life Sciences in addition to the capabilities, manufacturing, testing and design facilities. We now forecast total revenues increasing to £1,933k in FY 2021, even taking account of the shortfall brought about by fewer elective surgical procedures resulting from the global coronavirus pandemic. Adding to this income will be the PERF grant and increasing R&D tax rebates.

Valuation unchanged by grant funding

We have updated our financials and forecasts, but only change our valuation to reflect RUA's cash balance. **We value RUA Life Sciences at £99.3m or 676p per share.**

EPIC	AOR
Price (last close)	102p
52week Hi/Lo	135p / 41p
Market cap	£16.5m
ED value / share	£99.3m / 676p
Cash at 7 July '20	£1.5m
Avg. daily volume	56,980

Share Price, p



Source: ADVFN

Description

RUA Life Sciences PLC 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 developing 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.

RUA's shares are listed on the UK London Stock Exchange's Alternative Investment Market.

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Summary Financials

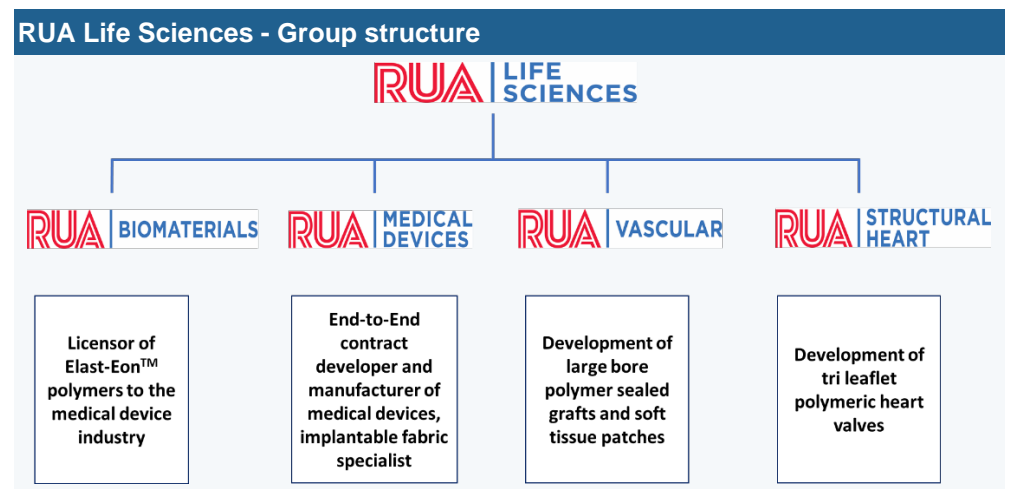
£'000s, y/e 31 March	2017A	2018A	2019A	2020E	2021E
Revenues	614	404	463	489	1933
Reported EBIT	-237	-34	-638	-941	-1311
Basic EPS (US c / UK p)	-4.26c	-0.61c	-4.72p	-5.55p	-7.48p
Net Assets	1318	1016	3000	2275	2565
Net Cash	114	422	2412	1976	400

Source: Company historic data, ED estimates

RUA Life Sciences is now fully integrated

The acquisition of RUA Medical as a fully integrated medical device design business, brings facilities, regulatory approvals, manufacturing capabilities, customers and revenues to the combined company (as illustrated in the Exhibit below). There is now a direct intercompany relationship for the Elast-Eon technology in RUA Biomaterials with all RUA Life Sciences' divisions.

For nearly two years RUA Medical has been the partner of the Vascular division - but now, within RUA Life Sciences, RUA Vascular can continue the development of surgically implanted medical devices that are constructed of Elast-Eon-coated textiles. RUA Vascular will use the expertise and manufacturing capabilities of RUA Medical, as will RUA Structural Heart.



Source: Company

Product development advancing

RUA Life Sciences' FY 2020 results included updates on the development of its Vascular and Structural Heart products. The large-diameter Elast-Eon-coated vascular graft, which we estimate to be about a year ahead of the Elast-Eon polymeric aortic heart valve, has entered animal proving trials and the first implantation had resulted in improvements in the finishing of the fabric that enables a sealed graft.

Further animal implantations should by now be ongoing and we expect that a design-freeze will result shortly after which, the ISO studies will commence. These longer-term implantations and testing are required for regulatory approval (licensing, and sale by partners). As we noted in our initiation research, the wide-bore vascular graft is a more difficult implantable fabric-derived medical device to develop and a component of this sealed vascular grafts is the Elast-Eon-coated soft tissue patch. We expect that the Elast-Eon-coated soft tissue surgical patch products to be progressing with the same timelines as the vascular graft.

RUA Structural Heart's Elast-Eon polymeric aortic heart valve **could eventually be the biggest value driver in our valuation of the company**. As it remains about one year behind RUA Vascular's products, and because more extensive testing is required before regulatory approval (licensing, and sales by partners), it currently contributes £35.6m to our risk-adjusted valuation - compared to £56.7m for RUA Vascular.

Financials: forecasts and valuation updated

With the reduction in elective surgical procedures and a surgical backlog now apparent in most developed markets we have made the following changes to our financials and forecasts in FY 2021. We have extended the estimated £300k shortfall at the time of the results announcement further into FY 2021 and simulated a backlog of surgical cases by reducing RUA's revenue growth in the next two years. On the positive side, we have included the £150k Scottish Pivotal Enterprise Resilience Fund, received in May 2020 and have increased the R&D tax rebate to £100k and £238k in FYs 2021 and 2022, respectively, to reflect the higher product development spend.

Investors should regard the increasing product development spend on RUA's Vascular and Structural Heart divisions as **principal investments in the future valuation drivers** of the company. The risk-adjusted future licensing transactions for RUA Life Sciences' Vascular and Structural products remain the majority components of our valuation. We have left these values unchanged from our recent initiation note until we can reduce the risk of their development as the products progress.

The only changes to our valuation reflect RUA's slightly lower cash position after the acquisition of RUA Medical and the short-term, coronavirus-related effects on RUA Medical's revenues.

Our valuation has therefore only changed marginally: to £99.3m or 676p per share.

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	-1311
Taxation				81	100
Reported Net income	-237	-34	-609	-816	-1211
Basic EPS (c before 2019, p after 2019)	-4.26	-0.61	-4.72	-5.55	-7.48
Diluted EPS (c pre 2019, p after 2019)	-4.26	-0.61	-4.72	-5.55	-7.48

Source: Company historic data, ED estimates, 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	2020E	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	400
Total current assets	506	556	2650	2234	883
Total assets	1420	1083	3099	2494	3771
Equity and liabilities					
Equity					
Ordinary shares	15189	12118	12574	12574	12649
Share Premium	3133	2500	4550	4550	5975
Retained earnings	-2511	-11599	-12208	-13024	-14234
Foreign exchange reserve	8752				
Other reserve	-23245	-2003	-1916	-1825	-1825
Equity attributable to the company	1318	1016	3000	2275	2565
Total equity	1318	1016	3000	2275	2565
Current liabilities					
Trade and other payables	-102	-67	-99	-219	-818
Total current liabilities	-102	-67	-99	-219	-818
Total non-current liabilities					-389
Total equity and liabilities	1216	949	2901	2056	3772

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

Consolidated Cash flow Statement & Forecasts

£'000s, y/e 31 March	2017A	2018A	2019A	2020A	2021E
Profit before taxation	-237	-34	-609	-897	-1311
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	-686
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		
Net cash from financing activities			2552		
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	400

Source: Company historic data, ED estimates, from 2020 onwards, pro forma numbers of the combined AorTech and RUA Medical business are shown



Investor Access

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