

FY 2021 Final Results – Investing in Growth

14 July 2021

While RUA Life Sciences' FY 2021 results echoed some of the challenges from last year's pandemic, largely in the well-flagged revenue shortfall stemming from RUA's customers that was a result of fewer elective surgeries, RUA's focus now is on investing the proceeds of last year's share offering in its vascular and heart valve products. Our forecasts and valuation have been updated for this increased pace of investment.

FY 2021 Results

RUA's total revenues for FY 2021 were £1,528K (vs. £480k for the year to 31 March 2020) although the addition of RUA Medical's £1,021k in revenues to those of RUA Biomaterials' £507k, make comparisons largely irrelevant. That being said, our £1,436k estimate of RUA's FY 2021 total revenues – revised down during last year's pandemic – were exceeded very modestly at RUA Medical, and by about £90k in licensing and royalty fees from products using the Elast-Eon polymer, at RUA Biomaterials. In addition, RUA's FY 2021 cost of goods of £276k was better than our previous £306k estimate. Administration expenses, which now include the larger headcount from the RUA Medical acquisition, increased from £1,123k to £2,690k in FY 2021. RUA's additional investments in R&D increased the FY 2021 operating loss to £1,551k from FY 2020's £941k, and while £43k in finance expense reversed 2020's £44k in finance income, this was offset by the £143k in higher R&D tax credits (vs. £81k in FY 2020). The increased R&D investment should result in a continued rise in R&D tax credits, which are recognised on a cash received basis, after a year. RUA's FY 2020 net loss increased from £816k to £1,451k in FY 2021, while the cash balance has increased from £1,976k at the end of FY 2020 to £6,294k a year later as a result of December 2020's equity funds raise.

Investment In RUA's future

RUA Life Sciences has been transformed by the RUA Medical acquisition and our note focusses on how operationally and financially the acquisition has altered our estimates going forward. Suffice to say that an operating business brings a number of new facets, such as increased headcount, working capital and capex expense. However, unlike many biotechnology companies that raise money in order to sit on it for as long as possible, in FY 2021 RUA did, and will continue to, invest in its **vascular and structural heart products** which, as investors will remember, comprise the bulk of our valuation. While some of this investment in headcount was in FY 2021, the £2,500k in capital investment still to come has been phased-in in our forecast financials over three years. With RUA's investment in R&D and capital expenditure, we anticipate the cash runway extending out to 2023.

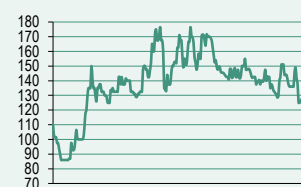
Valuation virtually unchanged

Our valuation has been updated for RUA's FY 2021 results and the expectations for large-bore vascular graft revenues in FY 2022. **This modestly increases our valuation to £116.5m or 525p per share from £115.4m or 520p per share.**

Company Data

EPIC	RUA
Price (last close)	128.5p
52 weeks Hi/Lo	177p / 84p
Mkt Cap	£28.5m
ED Fair Value, per share	£116.5m / 525p
End FY21 net cash	£6.3m
Avg. daily volume	45,341

Share Price, p



Source: LSE

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	2018A	2019A	2020A	2021A	2022E
Revenues	404	463	489	1528	2255
Reported EBIT	-34	-638	-941	-1551	-2134
Basic EPS (US c / UK p)	-0.61c	-4.72p	-5.55p	-8.20p	-8.51p
Net Assets	1016	3000	2275	8506	6360
Net Cash	422	2412	1976	5924	1116

Source: Company historic data, ED estimates

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Being a fully Integrated Medical Device company brings change

RUA Life Sciences FY 2021 results marked the year of transition from a medical device developer that had royalties from products containing the synthetic but biocompatible Elast-Eon polymer, and its own products, to one where medical device manufacturing and development are integrated within the group that retains the Elast-Eon licensing and royalty cash flows.

This transition, to what investors may recognise more as an integrated operating medical device company brings a number of changes that were highlighted in RUA's FY 2021 final results.

Operational Income Statement impact

Obviously, the addition of RUA Medical's £1,021k FY 2021 revenues dwarfed the £507k from the heritage RUA Biomaterials' Elast-Eon royalties and licensing business, but the two businesses also represent a diversification of RUA Life Sciences' customer base. While we had incorporated the revenue shortfall due to the pandemic last year and were very close to RUA Medical's FY 2021 revenues, we were pleasantly surprised that RUA Biomaterials' £507k revenues beat our £416k estimate.

Going forward we continue to expect 8% annual growth in RUA Biomaterial revenues but have rebased RUA Medical's revenues to FY 2021 levels, growing by 4%. We have also included one quarter of nominal revenues (£80k) for RUA Vascular's large-bore graft which RUA remains confident, will launch in the current financial year.

While we were also pleased to see that RUA's cost of goods for FY 2021 were lower than our estimates, we have kept our blended CoGS estimate across RUA's businesses at 30% of RUA Medical's turnover, or £318k in FY 2022.

RUA's announcement detailed the changes in headcount, not just with the integration of RUA Medical into the group – which brought the headcount to 25 – but the continued investment in R&D that has brought headcount to 32. RUA's announcement noted the £700k investment in R&D in the next year which, together with the increased headcount, we have reflected in Administration expensed increasing from £2,690 in FY 2021, to £3,733k in 2022.

Operational Balance Sheet impact

An operational medical device entity has more tangible working capital costs than the predecessor business that largely had a royalty stream and an R&D expense. In the last year, aspects such as inventories (£85k in FY 2021 vs. £0k in 2020) have appeared as have trade receivables and trade payables which increased in current assets and current liabilities, respectively. For part of the next year, RUA's structural heart and vascular products will remain in development however, we have increased RUA's working capital components in FY 2022 to reflect a business manufacturing stock for sale.

RUA's announcement implies more investment than just these working capital levels, since an operating company cannot make more stock without capacity. RUA's £2,500 additional investment in capital expenditure has been included in our financials in the next year. With increased capex, comes an increase in tangible asset depreciation (although a non-cash charge), which also feeds back to increase the net loss in our income statement.

Product development updates

We have not changed our valuation of RUA's structural heart, or vascular products, despite them being a year closer to the market since we initiated on the predecessor company. RUA's synthetic replacement aortic heart valve is behind its vascular products because it is a much more complicated medical device.

Not only does a replacement heart valve need the biocompatible advantages of Elast-Eon, it also has moving parts and requires more extensive development and testing. RUA's most advanced vascular product – the large bore vascular graft – recently had an issue that appears to be a [chain of custody contamination](#) problem, rather than a structural or chemical issue with the graft.

We have addressed this uncertainty by including modes revenues for the vascular graft in FY 2022 but have currently kept our valuation of the product unchanged. RUA Vascular's second product to the market remains on track for a regulatory submission before the end of the YE 2022 and we have not included any revenues for this product, although some pre-launch stock is included in our revised working capital estimates.

Despite the issue with RUA Vascular's graft, which ongoing testing is aimed at resolving, RUA continues to expect revenues by the end of the current financial year from the graft, and a 510k submission for the vascular patches.

We have included nominal new revenues for the large bore vascular graft of £80k for the YE 2022 in our forecasts.

Consolidated Income Statement & Forecasts					
£'000s, y/e 31 March	2018A	2019A	2020A	2021A	2022E
IFRS Income Statement					
Total revenue	404	463	489	1528	2255
Administration expenses	-474	-822	-1123	-2690	-3773
Other income (expense)	255	7	14	279	279
Depreciation & amortisation	-219	-218	-193	-272	-490
Reported EBIT	-34	-638	-941	-1551	-2134
Reported profit before tax	-34	-609	-941	-1551	-2134
Taxation			81	143	247
Basic EPS (c before 2019, p after 2019)	-0.61	-4.72	-5.55	-8.20	-8.51
Dil'd EPS (c before 2019, p after 2019)	-0.61	-4.72	-5.55	-8.20	-8.51
Share count (basic)	5,557,659	14,686,608	17,609,120	17,967,120	22,184,798

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	2017A	2019A	2020A	2021A	2022E
Assets					
Non-current assets					
Tangible assets			5	1952	4452
Goodwill				301	301
Intangible assets	527	448	255	574	574
Total non-current assets	527	449	260	2827	5327
Current assets					
Inventories				85	100
Trade and other receivables	134	238	258	949	1079
Cash and equivalents	422	2412	1976	6294	1486
Total current assets	556	2650	2234	7328	2665
Total assets	1083	3099	2494	10155	7992
Equity and liabilities					
Equity					
Ordinary shares	12118	12575	12574	12949	12949
Share Premium	2500	4550	4550	11729	11857
Retained earnings	-11599	-12208	-13024	-14475	-17025
Foreign exchange reserve					
Other reserve	-2003	-1916	-1825	-1697	-1697
Equity attributable to the company	1016	3000	2275	8506	6360
Total equity	1016	3000	2275	8506	6360
Current liabilities					
Trade and other payables	67	99	219	1016	1016
Total current liabilities	67	99	219	1099	1076
Total non-current liabilities				550	550
Total equity and liabilities	1083	3099	2494	10155	7986

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	2018A	2019A	2020A	2021A	2022E
Profit before taxation	-34	-609	-897	-1594	-2134
Adjustment for:					
Depreciation & amortisation	219	218	193	68	490
Movements in working capital	162	-73	100	820	820
Net cash generated by operating activities	347	-429	-438	-1414	-1889
Investing activities					
Capital expenditure on tangibles		-1	-5	-620	-2500
Capital expenditure on intangibles	-16				
Acquisition of subsidiary		-139		-341	
Net cash used in investing activities	-16	-133	2	-952	-2500
Financing activities					
Net proceeds from issue of shares		2552		6462	
Net cash from financing activities		2552		6684	-425
Net cash from discontinued operations					
Cash & equivalents at beginning of year	91	422	2412	1976	6294
Cash & equivalents at end of year	422	2412	1976	6294	1486

Source: Company historic data, ED estimates. From 2020 onwards, pro forma numbers of the combined business are shown.



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