

12 July 2021

Updated

RUA Life Sciences Plc

Strong FY21A results

RUA Life Sciences has reported strong results for the 12 months to March 2021 along with a positive outlook on its revenue generating businesses and development programmes. Total revenues were £1.5m and the EBIT loss was £1.6m, both better than expected, while the company closed the year with cash of £6m. The company expects to submit two FDA approval filings during the current fiscal year and the heart valve programme continues to progress and generate interesting information. RUA has provided detailed capital investment plans to support both the development and future manufacturing of its products once approved. We believe RUA Life Sciences is in excellent shape to both grow its near-term revenues and progress the development of its heart valve project and maintain our Buy recommendation on the stock.

- **Results** – RUA has reported revenues for FY21A of £1.5m ahead of our £1.4m estimate and the recent trading update on higher than expected royalties. The EBIT loss was £1.55m (Cenkos est £1.76m). Cash at the end of March 2021 was £6.3m.
- **Progress** – The company has made strong progress on the development of its cardiovascular medical device portfolio during FY21. Despite the recently announced minor delay to FDA filing for the vascular graft, RUA still expects first revenues during FY22E. The FDA application for the vascular patch programme is expected to be submitted during the year, while the more complicated heart valve project has moved beyond initial proof of concept.
- **Forecasts** – We have updated our forecasts for FY22E, mainly increasing investment spend (OPEX & CAPEX), to support the development of the vascular products and heart valve development. Importantly, our current FY22E revenues do not include a contribution from the sale of vascular grafts, as such initial sales of these products during the fiscal year would deliver upside to our current forecasts.
- **Outlook** – We believe RUA has made strong progress during FY21 and through the pandemic disruption. In the year ahead we expect two FDA regulatory submissions and continued development of the heart valve project. Our forecasts also anticipate double-digit revenue growth supported by a return of deferred elective procedures supporting RUA Medical revenues.
- **Investment thesis** – We believe RUA Life Sciences has built a strong foundation for future growth and development. With indications that elective surgery volumes are improving, RUA's established revenue base should deliver growth in FY22E, which could be boosted by vascular graft revenues. The company's strong cash position supports continued product development and investment. We maintain our Buy recommendation.

Forecast and Ratios

Y/E March (£m)	2018A	2019A	2020A	2021A	2022E
Revenues	0.4	0.5	0.5	1.5	1.8
EBITDA	(0.1)	(0.4)	(0.7)	(1.2)	(2.2)
Net Income	(0.0)	(0.6)	(0.8)	(1.5)	(2.8)
EPS (GBp)	(0.6)	(4.7)	(5.6)	(8.2)	(13.4)
Net cash	0.4	2.4	2.0	6.3	1.8

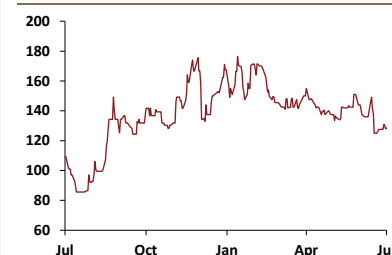
Source: Cenkos Securities estimates, Company data

Brokership Company

BUY

Price at COB 09 Jul 21 128.5p
 52-week range 85.5-176.5p
 Ticker RUA LN

Share Price Performance



Source: Morningstar

Performance	1m	3m	12m
Absolute	(10.8)	(17.1)	11.4

Stock Data

Market cap (£m)	28.5
Shares outstanding (m)	22.2

Activities

RUA Life Sciences Plc is a holding company, which engages in the commercialization of biomedical polymer technology, components, and medical devices.

Directors

Bill Brown	Chairman
David M Richmond	CEO
Kate Full	CFO

Significant Shareholders

Walker Crips Stockbrokers	13.2%
Amati Global Investors	8.1%
Mr DM Richmond	6.9%
Hargreaves Lansdown AM	6.1%
A J Bell Securities	5.6%

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RUA Life Sciences

RUA Medical

RUA Medical, with revenues generated from the contract manufacture of third party medical devices, generated revenues of £1.02m during FY21A, slightly up on FY20A, though impacted by the deferral of elective surgical procedures due to the pandemic. The company estimates that the pandemic reduced revenues by c£0.4m during the year.

As part of the group's capital investment programme, RUA Medical has invested £0.3m in a new warper and creel system to up scale the production of material to manufacture RUA Vascular's graft products. The new equipment should allow the company to manufacture between 18k and 20k grafts per year. A further £0.75m has been committed to additional manufacturing equipment for graft and patch production.

RUA Biomaterials

RUA Biomaterials, the license holder for Elast-Eon, generated revenues of £0.5m in the year, slightly ahead of FY20A. This result was ahead of the company's initial expectations as a result of higher royalties from licensees. In GBP, FY21A revenues grew by c4%, though the increase in US\$, the primary invoicing currency, was closer to 12%, indicating solid demand for the product.

RUA Vascular

RUA Vascular is developing two medical device programmes, vascular grafts and vascular patches, both of which incorporate the company's proprietary Elast-Eon material.

RUA expects to obtain FDA clearance to market its vascular graft products during this fiscal year and reported good progress with commercial partners to both distribute the grafts and also to incorporate them into OEM devices.

The company estimates that the annual global demand for large bore surgical implanted grafts is c200k, with North America representing c45% by volume, with US pricing to hospitals ranging from \$1,000 to \$3,000.

A separate 510(k) FDA application covering RUA's vascular patch programme is also expected to be filed this year, though given the timings, the company does not anticipate revenues from this programme during the current fiscal year.

With a view on expected future demand, RUA has purchased a neighbouring industrial unit to its existing site in Irvine, Scotland. This new site can be configured to more than triple the clean room space of the company meeting the expected production needs for the medium term. The investment in this expansion is expected to be c£0.7m.

RUA Structural Heart

RUA Structural Heart is developing a polymeric heart valve incorporating Elast-Eon, with progress through FY21A seeing the programme move beyond the initial proof of concept stage. With the early-stage results in hand, the company is committing additional resources to the project, including both engineers and in house testing equipment.

The current budget for the heart valve project has been set at c£0.8m, covering testing equipment, manufacturing equipment and tooling, with testing being brought in house to reduce

lead times on prototype testing. We note that c75% of the heart valve budget is contingent upon on-going satisfactory results.

Estimates

The table below shows the changes to FY21A versus our previous estimates. As shown, our revenue forecasts for FY22E remain conservative and unchanged.

We have increased our operating expenses by £0.45m and separately increased our CAPEX by £0.2m for FY22E. Both of these increases are to reflect the strong progress the company has made in the development of its vascular graft and patch products and its heart valve programme. As such, we view these investments as having been brought forward from subsequent years to enable faster progress to market.

We note that despite the increased levels of investment, we expect the company to close FY22E with a stronger cash balance than versus our previous forecasts.

Table 1: Change to estimates

Year-end Mar (£000)		2020A	2021E	2022E
Revenues	Previous	489	1,425	1,775
	New	489	1,528	1,775
	% Diff	0.0%	7.2%	0.0%
EBITDA (adj)	Previous	(657)	(1,313)	(1,788)
	New	(657)	(1,151)	(2,238)
	% Diff	0.0%	-12.3%	25.2%
EBIT	Previous	(941)	(1,763)	(2,388)
	New	(941)	(1,551)	(2,838)
	% Diff	0.0%	-12.0%	18.9%
Net Profit	Previous	(816)	(1,763)	(2,388)
	New	(816)	(1,451)	(2,838)
	% Diff	0.0%	-17.7%	18.9%
EPS (basic, GBp)	Previous	(5.56)	(10.11)	(11.27)
	New	(5.56)	(8.20)	(13.39)
	% Diff	0.0%	-18.9%	18.9%
Cash	Previous	1,976	5,196	1,352
	New	1,976	6,294	1,800
	% Diff	0.0%	21.1%	33.1%

Source: Cenkos Securities estimates, Company data

Financials

Table 2: RUA Life Sciences Profit & Loss statement

Year-end March (£000)	2018A	2019A	2020A	2021A	2022E
Revenues	404	463	489	1,528	1,775
<i>growth</i>	<i>0.0%</i>	<i>14.6%</i>	<i>5.6%</i>	<i>212.5%</i>	<i>16.2%</i>
COGS	0	0	0	(276)	(313)
<i>% of revs</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>18.1%</i>	<i>17.6%</i>
Gross profit	404	463	489	1,252	1,463
<i>gross margin</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>81.9%</i>	<i>82.4%</i>
Operating expenses	(474)	(816)	(1,123)	(2,690)	(3,700)
<i>% of revs</i>	<i>117.3%</i>	<i>176.2%</i>	<i>229.7%</i>	<i>176.0%</i>	<i>123.9%</i>
Other income	0	0	14	279	0
Other expense	0	(19)	(37)	8	0
EBITDA, adj	(70)	(372)	(657)	(1,151)	(2,238)
Depr & Amort	(219)	(218)	(193)	(272)	(500)
Share based payments	0	(42)	(91)	(128)	(100)
Operating profit, adj	(289)	(632)	(941)	(1,551)	(2,838)
exceptionals	255	(6)	0	0	0
Operating profit	(34)	(638)	(941)	(1,551)	(2,838)
Finance, net	0	29	44	(43)	0
Pre-tax profit	(34)	(609)	(897)	(1,594)	(2,838)
Tax	0	0	81	143	0
<i>tax rate</i>	<i>0.0%</i>	<i>0.0%</i>	<i>9.0%</i>	<i>9.0%</i>	<i>0.0%</i>
Net income	(34)	(609)	(816)	(1,451)	(2,838)
No. shares, period end	5,558	14,687	14,687	21,187	21,187
No. shares, average	5,558	12,911	14,687	17,697	21,187
EPS (GBp)	(0.6)	(4.7)	(5.6)	(8.2)	(13.4)

Source: Company data. Cenkos Securities estimates

Table 3: RUA Life Sciences Balance Sheet

Year-end March (£000)	2018A	2019A	2020A	2021A	2022E
Goodwill	0	0	0	301	301
Intangible assets	527	448	255	574	424
PP&E	0	1	5	1,952	3,652
Total non-current asset	527	449	260	2,827	4,377
Inventory	0	0	0	85	105
Trade receivables	134	238	258	949	1,122
Cash and equivs	422	2,412	1,976	6,294	1,800
Total current asset	556	2,650	2,234	7,328	3,027
Total assets	1,083	3,099	2,494	10,155	7,404
Trade payables	67	99	219	1,016	1,002
Borrowings	0	0	0	23	23
Lease liabilities	0	0	0	40	40
Other	0	0	0	20	20
Total current liabilities	67	99	219	1,099	1,085
Borrowings	0	0	0	223	223
Lease liabilities	0	0	0	124	124
Deferred tax	0	0	0	163	163
Other non-current liabilities	0	0	0	40	40
Total non-current liabilities	0	0	0	550	550
Total liabilities	67	99	219	1,649	1,635
Issued capital	12,118	12,574	12,574	12,949	12,949
Share premium	2,500	4,550	4,550	11,729	11,729
Other reserve	(2,003)	(1,916)	(1,825)	(1,697)	(1,597)
Accumulated profit	(11,599)	(12,208)	(13,024)	(14,475)	(17,313)
Total equity	1,016	3,000	2,275	8,506	5,769
Total equity & liabilities	1,083	3,099	2,494	10,155	7,404

Source: Company data. Cenkos Securities estimates

Table 4: RUA Life Sciences Cash Flow statement

Year-end March (£000)	2018A	2019A	2020A	2021A	2022E
Net income	(34)	(609)	(816)	(1,451)	(2,838)
Amortisation	219	218	193	68	200
Depreciation	0	0	1	204	300
Share based payments	0	42	91	128	100
Interest income	0	(7)	(7)	9	0
Tax income	0	0	(81)	(143)	0
Change in inventory	0	0	0	7	(20)
Change in receivables	176	(104)	(20)	(589)	(173)
Change in payables	(14)	31	120	231	(14)
Tax received	0	0	81	122	0
Net cash from operations	347	(429)	(438)	(1,414)	(2,444)
CAPEX PP&E	0	(1)	(5)	(620)	(2,000)
CAPEX intangibles	(16)	0	0	0	(50)
Acquisition	0	(139)	0	(323)	0
Interest received	0	7	7	(9)	0
Cash flow from investing	(16)	(133)	2	(952)	(2,050)
Share issue, net	0	2,552	0	6,462	0
Change in borrowings	0	0	0	222	0
Cash flow from financing	0	2,552	0	6,684	0
Change in cash	331	1,990	(436)	4,318	(4,494)
Opening cash	91	422	2,412	1,976	6,294
Closing cash	422	2,412	1,976	6,294	1,800

Source: Company data. Cenkos Securities estimates

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- HOLD is an expected return -10% - +10%; and
- SELL is an expected return less than -10%.
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	Corporate No.	Corporate %	No.	%
Buy	64	85	80	86
Hold	2	2	4	4
Sell	0	0	0	0
Under review	9	12	9	9

Temporary movements by stocks across the boundaries of these categories due to share price volatility will not necessarily trigger a recommendation change. All recommendations are based on 12 month time horizon unless otherwise stated.

Recommendation History

Company	Disclosures	Date	Rec	Price
RUA Life Sciences Plc	2,6,7,8,9,10	14 Dec 20	Buy	134.3p

Source: Cenkos Securities

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