

# RUA Life Sciences Plc

## Group progress

RUA Life Sciences has reported its interim results for the six-months to September 22, detailing progress across each of its four business units. The company has delivered strong revenue growth of 56%, while maintaining tight control on its cost base, such that the end of period cash balance was £2.5m vs £3.0m at March 2022, ahead of an expected R&D Tax Credit. Discussions with the FDA on the vascular graft devices have progressed and RUA sees the requirements of the human clinical study much reduced against what could have been requested. The company is actively exploring financing opportunities to support the trial, including non-dilutive grant funding. Final budget and timings are being developed and we expect RUA to update the market in due course.

- **Operations** – RUA Life Sciences has reported revenues of £1.1m for H1/23A, delivering growth of 56% YoY. Gross margin remained high at 79% (75% in H1/22A) and with controlled investment, the net loss was £1.1m versus £1.3m in H1/22A.
- **Biomaterials/Contract Manufacturing** – Biomaterials revenues increased 20% to £187k, driven by increased volume. The company expects that, as per previous years, royalties and license fees to be H2-weighted. Contract Manufacturing revenues increased 66% to £917k, supported by increased demand and price. RUA notes a new manufacturing contract has been signed that could deliver significant near-term revenues and has a number of quotes for new business under negotiation.
- **RUA Vascular** – RUA notes positive progress with the FDA relating to the 510(k) pre-submission for its vascular graft products. Further in vivo work will be performed which has reduced the requirements of the human clinical study from what could have been requested. The study will now be of limited scale and performed in a single arm. Expected costs and timing will be provided in due course, with the company exploring financing options, including non-dilutive grant funding.
- **Cash** – Cash at the end of September 2022 was £2.5m versus £3.0m at the end of March 2022. This reflects management maintaining tight control on costs alongside strong revenue growth. The company also notes an anticipated R&D Tax Credit of £328k to be received shortly, which will further bolster the company's cash position.
- **Investment thesis** – Building on an established and growing revenue base, RUA is developing two cardiovascular programmes targeting billion-dollar markets, enabled by its proprietary Elast-Eon technology. The expected shift from animal sourced graft sealants should support the vascular graft and patch produces enter the c\$1bn market for these products, while the heart valves could disrupt this \$8bn market.

### Forecast and Ratios

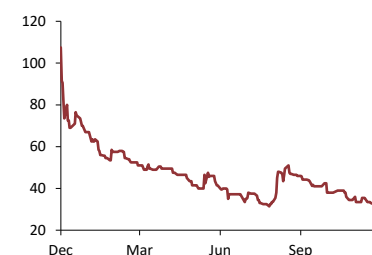
Y/E March (£m)	2018A	2019A	2020A	2021A	2022A
Revenues	0.4	0.5	0.5	1.5	1.6
EBITDA	(0.1)	(0.4)	(0.7)	(1.2)	(1.9)
Net Income	(0.0)	(0.6)	(0.8)	(1.5)	(2.1)
EPS (GBp)	(0.6)	(4.7)	(5.6)	(8.2)	(9.3)
Y/E cash	0.4	2.4	2.0	6.3	3.0

Source: Cenkos Securities estimates, Company data

## Brokership Company HOLD

Price at COB 12 Dec 22 44.5p  
52-week range 31.4-91.5p  
Ticker RUA LN

### Share Price Performance



Source: Morningstar

### Stock Data

Market cap (£m) 9.9  
Shares outstanding (m) 22.2

### Activities

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

### Directors

Bill Brown Chairman  
Caroline Stretton Group MD  
Lachlan Smith CFO

### Significant Shareholders

AJ Bell 9.3%  
Hargreaves Lansdown Stockbrokers 7.4%  
Mr DM Richmond 6.9%  
Walker Crips Stockbrokers 6.7%  
Interactive Investors 6.1%

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# RUA Life Sciences

## Group

Group revenues increased 56% to £1.1m from £0.7m, reflecting growth from the two revenue generating business units, Biomaterials and Contract Manufacturing. Gross margin of 79% remained strong and increased YoY from 75% in H1/22A.

Group Administrative expense increased to £1.9m versus £1.7m in H1/22A, reflecting investment in the business, particularly supporting the Vascular business unit.

The stronger revenues and gross margin offset the increased administrative expenses such that the operating loss reduced to £1.1m versus £1.3m, a result that was maintained to the net income line.

Period end cash was £2.5m versus £3.0m at the end of FY22A (March 2022), highlighting the company's tight control of its cash expenditure. This figure is ahead of an expected £328k R&D tax credit, which has yet to be received.

## Biomaterials

The Biomaterials business unit licenses the IP around RUA Life Science's proprietary Elast-Eon material and related polymers, generating royalty and license fee income. The material is used in medical devices, such as cardiac rhythm management leads, with over 8 million Elast-Eon coated CRM leads implanted since 2006.

Business unit revenues increased by 20% to £187k from £156k, reflecting increased volumes of Elast-Eon purchased by licensees.

RUA notes that revenue into this business unit is historically second-half weighted and expects this to be the case for FY23E to March 2023.

## Contract Manufacturing

The Contract Manufacturing business unit is an end-to-end third -party contract developer and manufacturer of medical devices.

During the 6-months, the company grew revenues by 66% to £917k from £552k. The company notes the main driver for this growth was increased demand from customers, but also notes it implemented its first price increase in almost ten years during the period.

Demand was driven from two main sources:

- Post-COVID increase in US hospital procedures
- European stock build in advance of the regulatory transition from MDD to MDR

The company expects continued US order growth in H2/23E and steady levels of European orders while MDR stocking is fully implemented.

Supporting future growth in this division the company notes a new contract signed, with first sales achieved. While revenues from this contract are expected to gradually ramp up over the next 12-months, they could stabilise between £10k and £12k per month.

Additional contracts are under discussion with a number of businesses, with the revenues from these quotations having the potential to 'more than double the current scale of the Contract Manufacturing business'.

## Vascular

The Vascular business unit is developing a range of Elast-Eon sealed vascular grafts and related products.

The business unit is progressing its 510(k) FDA application for its large bore grafts, noting the progress 'has been positive but time consuming'.

To provide more information on the healing process for the Elast-Eon sealed grafts, which differs from the predicated devices, RUA is undertaking further in vivo work, providing additional information at one and three months, in addition to the six-month end-point.

Importantly, this in vivo work has resulted in the requirements for the human clinical study to be much reduced from what they could have been. As such, RUA expects the study to be of 'limited scale' and utilise a single arm, with the end-point measured at six-months post-operation.

Once the final trial details, timings and budget have been finalised, we expect an update from the company but note that management is actively exploring financing opportunities for the study, including non-dilutive grant funding.

Commercially, RUA expects to sell its vascular products via distributors and has been in discussion with a number of potential distribution partners. RUA expects average selling prices into hospitals to range between c\$900 to \$3,000 depending upon the device and that the company should be able to achieve gross margins around 80% on its sales to its partners.

## Structural Heart

The Structural Heart business unit is developing polymeric heart valves, targeting a multi-billion dollar market opportunity.

During the period, the company has made progress with its Elast-Eon coated fabric heart valve, such that we now expect the company to take this composite valve design forward, instead of the 100% Elast-Eon valve, that was also being assessed.

The company notes the 'fatigue properties and tear resistance' of the composite design were many times better than the pure Elast-Eon device, while performing in an identical manner. RUA is currently working on the manufacturing process for the composite valve, in order to replace the current manual manufacturing process and therefore allow sufficient volumes to be manufactured to allow durability testing.

# Financials

**Table 1: RUA Life Sciences Profit & Loss statement**

Year-end March (£000)	2018A	2019A	2020A	2021A	2022A
<b>Revenues</b>	<b>404</b>	<b>463</b>	<b>489</b>	<b>1,528</b>	<b>1,625</b>
<i>growth</i>	<i>0.0%</i>	<i>14.6%</i>	<i>5.6%</i>	<i>212.5%</i>	<i>6.3%</i>
COGS	0	0	0	(276)	(267)
<i>% of revs</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>18.1%</i>	<i>16.4%</i>
<b>Gross profit</b>	<b>404</b>	<b>463</b>	<b>489</b>	<b>1,252</b>	<b>1,358</b>
<i>gross margin</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>81.9%</i>	<i>83.6%</i>
Operating expenses	(474)	(816)	(1,123)	(2,690)	(3,315)
<i>% of revs</i>	<i>117.3%</i>	<i>176.2%</i>	<i>229.7%</i>	<i>176.0%</i>	<i>204.0%</i>
Other income	0	0	14	279	66
Other expense	0	(19)	(37)	8	(3)
<b>EBITDA, adj</b>	<b>(70)</b>	<b>(372)</b>	<b>(657)</b>	<b>(1,151)</b>	<b>(1,894)</b>
Depr & Amort	(219)	(218)	(193)	(272)	(313)
Share based payments	0	(42)	(91)	(128)	(145)
<b>Operating profit, adj</b>	<b>(289)</b>	<b>(632)</b>	<b>(941)</b>	<b>(1,551)</b>	<b>(2,352)</b>
exceptionals	255	(6)	0	0	0
Operarting profit	(34)	(638)	(941)	(1,551)	(2,352)
Finance, net	0	29	44	(43)	(8)
<b>Pre-tax profit</b>	<b>(34)</b>	<b>(609)</b>	<b>(897)</b>	<b>(1,594)</b>	<b>(2,360)</b>
Tax	0	0	81	143	293
<i>tax rate</i>	<i>0.0%</i>	<i>0.0%</i>	<i>9.0%</i>	<i>9.0%</i>	<i>12.4%</i>
<b>Net income</b>	<b>(34)</b>	<b>(609)</b>	<b>(816)</b>	<b>(1,451)</b>	<b>(2,067)</b>
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	22,185
<b>EPS (GBp)</b>	<b>(0.6)</b>	<b>(4.7)</b>	<b>(5.6)</b>	<b>(8.2)</b>	<b>(9.3)</b>

Source: Company data.

**Table 2: RUA Life Sciences Balance Sheet**

<b>Year-end March (£000)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>
Goodwill	0	0	0	301	301
Intangible assets	527	448	255	574	521
PP&E	0	1	5	1,952	2,597
<b>Total non-current asset</b>	<b>527</b>	<b>449</b>	<b>260</b>	<b>2,827</b>	<b>3,419</b>
Inventory	0	0	0	85	124
Trade receivables	134	238	258	949	1,120
Cash and equivs	422	2,412	1,976	6,294	2,963
<b>Total current asset</b>	<b>556</b>	<b>2,650</b>	<b>2,234</b>	<b>7,328</b>	<b>4,207</b>
<b>Total assets</b>	<b>1,083</b>	<b>3,099</b>	<b>2,494</b>	<b>10,155</b>	<b>7,626</b>
Trade payables	67	99	219	1,016	410
Borrowings	0	0	0	23	23
Lease liabilities	0	0	0	40	39
Other	0	0	0	20	39
<b>Total current liabilities</b>	<b>67</b>	<b>99</b>	<b>219</b>	<b>1,099</b>	<b>511</b>
Borrowings	0	0	0	223	199
Lease liabilities	0	0	0	124	83
Deferred tax	0	0	0	163	75
Other non-current liabilities	0	0	0	40	174
<b>Total non-current liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>550</b>	<b>531</b>
<b>Total liabilities</b>	<b>67</b>	<b>99</b>	<b>219</b>	<b>1,649</b>	<b>1,042</b>
Issued capital	12,118	12,574	12,574	12,949	1,109
Share premium	2,500	4,550	4,550	11,729	11,729
Capital redemption reserve	0	0	0	0	11,840
Other reserve	(2,003)	(1,916)	(1,825)	(1,697)	(1,552)
Accumulated profit	(11,599)	(12,208)	(13,024)	(14,475)	(16,542)
<b>Total equity</b>	<b>1,016</b>	<b>3,000</b>	<b>2,275</b>	<b>8,506</b>	<b>6,584</b>
<b>Total equity &amp; liabilities</b>	<b>1,083</b>	<b>3,099</b>	<b>2,494</b>	<b>10,155</b>	<b>7,626</b>

Source: Company data.

**Table 3: RUA Life Sciences Cash Flow statement**

<b>Year-end March (£000)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>
Net income	(34)	(609)	(816)	(1,451)	(2,067)
Amortisation	219	218	193	68	53
Depreciation	0	0	1	204	259
Share based payments	0	42	91	128	145
Interest income	0	(7)	(7)	9	8
Tax income	0	0	(81)	(143)	(293)
Change in inventory	0	0	0	7	(39)
Change in receivables	176	(104)	(20)	(589)	(53)
Change in payables	(14)	31	120	231	(453)
Tax received	0	0	81	122	87
<b>Net cash from operations</b>	<b>347</b>	<b>(429)</b>	<b>(438)</b>	<b>(1,414)</b>	<b>(2,353)</b>
CAPEX PP&E	0	(1)	(5)	(620)	(904)
CAPEX intangibles	(16)	0	0	0	0
Acquisition	0	(139)	0	(323)	0
Interest received	0	7	7	(9)	(8)
<b>Cash flow from investing</b>	<b>(16)</b>	<b>(133)</b>	<b>2</b>	<b>(952)</b>	<b>(912)</b>
Share issue, net	0	2,552	0	6,462	0
Change in borrowings	0	0	0	222	(66)
<b>Cash flow from financing</b>	<b>0</b>	<b>2,552</b>	<b>0</b>	<b>6,684</b>	<b>(66)</b>
Change in cash	331	1,990	(436)	4,318	(3,331)
Opening cash	91	422	2,412	1,976	6,294
<b>Closing cash</b>	<b>422</b>	<b>2,412</b>	<b>1,976</b>	<b>6,294</b>	<b>2,963</b>

Source: Company data.

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	Corporate No.	Corporate %	No.	%
Buy	71	91	85	89
Hold	6	7	9	9
Sell	0	0	0	0
Under review	1	1	1	1

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### Recommendation History

Company	Disclosures	Date	Rec	Price
RUA Life Sciences Plc	2,6,8,9,10	11 Jul 22	Hold	37.3p
		03 Nov 21	Buy	151.5p

Source: Cenkos Securities

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