

RUA Life Sciences Plc

Vascular graft distribution agreement

RUA Life Sciences has signed a global distribution agreement with Corcym, a medical device company focussed on treating heart conditions. The agreement will cover the distribution of RUA's large bore straight and aortic root grafts, for which RUA is currently working towards gaining FDA clearance. We expect RUA's grafts to be complementary to Corcym's existing product portfolio which is sold in over 100 countries. The agreement establishes global distribution for the vascular grafts and validates the products and regulatory pathway RUA has adopted, and could see first sales generated in 2025, assuming the required clearances are achieved.

- **Corcym** – RUA has signed an agreement with global medical device company, Corcym, which has a focus on structural heart products. The deal will see the companies split the gross profit from future sales 50:50, an arrangement which we estimate will deliver +80% gross margins to RUA (as detailed in this report).
- **Vascular grafts** – As per the December interim results, the vascular products are progressing through the US 510(k) regulatory pathway with RUA currently finalising a trial to provide additional human data as requested by the FDA. RUA expects regulatory approvals for the broad portfolio of vascular graft products to come through from 2025 to 2027, including the large bore and aortic root grafts covered by the current Corcym agreement.
- **Distribution** – We see this as a strong deal for RUA, establishing in a single agreement a focused, global route to market for RUA's vascular grafts. Additionally, we expect Corcym to cover the working capital investment required to fill the distribution channel. Further as mentioned, we expect the agreement to generate strong gross margins and, essentially, royalty-like operating profits.
- **Validation** – Alongside the strong economics, we believe the deal validates both the vascular graft portfolio and the regulatory pathway RUA has adopted for the products following the FDA's request for additional human data in December 2021. We now see a clear path to market for these products, targeting, as estimated by RUA, a c\$1bn annual global market opportunity.
- **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 products enter the c\$1bn market for these products, while the heart valves could disrupt this \$8bn market.

Forecast and Ratios

Y/E March (£000s)	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

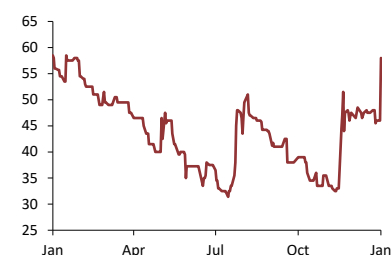
Source: Company data

Brokership Company

HOLD

Price at COB 25 Jan 23 58p
 52-week range 31.4-58.5p
 Ticker RUA LN

Share Price Performance



Source: Morningstar

Stock Data

Market cap (£m) 13
 Shares outstanding (m) 22

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 9.6%
 Hargreaves Lansdown 7.8%
 Mr DM Richmond 6.9%
 Walker Crips 6.3%
 Interactive Investors 6.1%

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Corcym agreement economics

We estimate the economics of the Corcym deal as shown in the table below, based upon the following assumptions:

- A vascular graft with an in-market sales price of \$1,000 can be manufactured by RUA for \$100. As stated by RUA in its December 2022 interim results announcement, average selling prices into US hospitals for vascular grafts range from c\$900 to \$3,000, depending upon the type of device.
- RUA sells the grafts to Corcym at cost, recognising this income as revenues invoiced as per a normal transaction.
- Corcym sells the grafts in-market, generating a commercial gross profit of \$900, which is then split 50:50 between the two companies.
- This generates a RUA gross margin, post-distributor margin, of 82%, in-line with the company's statement with its interim results that *'RUA should be able to achieve a gross margin of around 80% on products sold'*.
- We have estimated nominal operating costs associated with this agreement, to be conservative, arriving at +70% operating margin to RUA Life Sciences.
- As shown below, we estimate that \$10m of in-market sales by Corcym (1% market share), could generate c\$4m of operating profit to RUA Life Sciences.

Table 1: Corcym announcement

\$	RUA	Corcym
Device manufacturing costs	(100)	
Inter-company sale	100	(100)
Commercial sale		1,000
Commercial gross profit		900
<i>commercial gross margin</i>		90%
Gross profit share (50:50)	450	450
Total revenues	550	1,000
COGS	(100)	(550)
Gross profit	450	450
<i>gross margin</i>	82%	45%
Operating costs	(50)	
Operating profit	400	
<i>operating margin</i>	73%	

Source: Cenkos Securities estimates.

Financials

Table 2: RUA Life Sciences Profit & Loss statement

Year-end March (£000)	2018A	2019A	2020A	2021A	2022A
Revenues	404	463	489	1,528	1,625
<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>
Gross profit	404	463	489	1,252	1,358
<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)
EBITDA, adj	(70)	(372)	(657)	(1,151)	(1,894)
Depr & Amort	(219)	(218)	(193)	(272)	(313)
Share based payments	0	(42)	(91)	(128)	(145)
Operating profit, adj	(289)	(632)	(941)	(1,551)	(2,352)
exceptionals	255	(6)	0	0	0
Operating profit	(34)	(638)	(941)	(1,551)	(2,352)
Finance, net	0	29	44	(43)	(8)
Pre-tax profit	(34)	(609)	(897)	(1,594)	(2,360)
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>
Net income	(34)	(609)	(816)	(1,451)	(2,067)
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
EPS (GBp)	(0.6)	(4.7)	(5.6)	(8.2)	(9.3)

Source: Company data.

Table 3: RUA Life Sciences Balance Sheet

Year-end March (£000)	2018A	2019A	2020A	2021A	2022A
Goodwill	0	0	0	301	301
Intangible assets	527	448	255	574	521
PP&E	0	1	5	1,952	2,597
Total non-current asset	527	449	260	2,827	3,419
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
Total current asset	556	2,650	2,234	7,328	4,207
Total assets	1,083	3,099	2,494	10,155	7,626
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
Total current liabilities	67	99	219	1,099	511
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
Total non-current liabilities	0	0	0	550	531
Total liabilities	67	99	219	1,649	1,042
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)
Total equity	1,016	3,000	2,275	8,506	6,584
Total equity & liabilities	1,083	3,099	2,494	10,155	7,626

Source: Company data.

Table 4: RUA Life Sciences Cash Flow statement

Year-end March (£000)	2018A	2019A	2020A	2021A	2022A
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
Net cash from operations	347	(429)	(438)	(1,414)	(2,353)
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)
Cash flow from investing	(16)	(133)	2	(952)	(912)
Share issue, net	0	2,552	0	6,462	0
Change in borrowings	0	0	0	222	(66)
Cash flow from financing	0	2,552	0	6,684	(66)
Change in cash	331	1,990	(436)	4,318	(3,331)
Opening cash	91	422	2,412	1,976	6,294
Closing cash	422	2,412	1,976	6,294	2,963

Source: Company data.

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- HOLD is an expected return -10% - +10%; and
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	Corporate No.	Corporate %	No.	%
Buy	69	92	77	91
Hold	5	6	6	7
Sell	0	0	0	0
Under review	1	1	1	1

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	2,6,8,9,10	11 Jul 22	Hold	37.3p
		13 Dec 21	Buy	136p

Source: Cenkos Securities

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