

24 July 2024

Corp

Ticker RUA:AIM

Healthcare Equipment & Services

Shares in issue (m) 62.1

Next results H1 Sept

Price 11.0p

Target price 25.0p

Upside 127%

Market Cap £6.8m

Net debt/(cash) -£3.8m

Other EV adjustments £0.0m

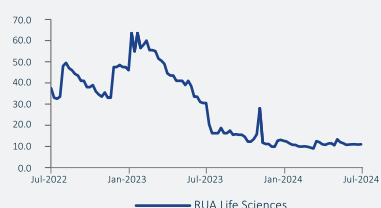
Enterprise value £3.1m

What's changed? From To

Adjusted EPS -1.7 -1.6

Target price 25.0 n/c

Share price performance



%	1M	3M	12M
Actual	1.1	2.3	-63.9

Company description

Engages in the commercialisation of biomedical polymer technology, components, and medical devices

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RUA Life Sciences*

On strategy

RUA Life Sciences has reported its FY24 results for the 12 months to March 2024, which show the company delivering on its revised strategy. While revenues in the period were only marginally up versus FY23 at £2,191k, H2/24 saw a strong rebound in revenues, delivering YoY growth of 30%. Aligned with the revised strategy and the focus on cost control, administrative expenses were reduced by £377k YoY, delivering a similar improvement in the operating loss for the year. Year-end cash balances were £3,931k following a £4m equity raise, completed in December 2023. Looking forward the company aims to grow its revenues, while seeking to reduce the timeframe to becoming cash generative.

- **Trading.** RUA Life Sciences generated revenues of £2.2m in FY24, up 0.6% YoY. Notably, following a weaker H1/24 performance, H2/24 revenue growth was 30%, demonstrating a strong second-half recovery. Gross profit was £1.8m at a margin of 81%. Group adjusted EBITDA loss improved to £1.6m from £1.8m on FY23, reflecting the company's focus on cost control, noting the elimination of certain roles within the company and reduced R&D expenses as the company implemented its revised strategy. Cash at period-end was £3.9m.
- **Revenues.** Group revenues are generated from two business units, RUA Biomaterials and RUA Contract Manufacturing. Licence and royalty income generated by RUA Biomaterials was down slightly YoY, impacted by the USDGBP exchange rate and the timing of shipments to a customer. RUA Contract Manufacturing revenues rose 3% to £1.7m, with growth of more than 50% recorded in H2/24 as a technical issue affecting the first half was resolved.
- **Vascular and Structural Heart.** As part of the company's revised strategy, RUA will seek to create value from its vascular graft and heart valve material programmes in the near term via partnering and licensing. RUA's composite heart valve material, branded as AurTex, is currently being tested by a potential partner, while the business unit aims to complete a full pack of internally generated data to be shared with the wider industry in the near term.
- **Outlook and forecast.** The company expects to engage with licencees to grow RUA Biomaterials revenue and enter additional contracts to grow RUA Contract Manufacturing revenue, with substantial opportunities being pursued. We are leaving our P&L forecasts unchanged at this time and have updated our balance sheet to reflect the new base year. Most significantly, FY24 year-end cash was about £650k ahead of our forecast and we maintain this improvement though our closing cash forecasts for FY25 and FY26.
- **Investment thesis.** We believe the combination of established revenues with growth potential and the option to deliver significant returns through the disruption of established billion-dollar global cardiovascular markets makes RUA Life Sciences an attractive investment opportunity. RUA now aims to turn profitable in the short term and has adopted a strategy to deliver earlier returns on its Vascular and Structural Heart investments.

Key estimates		2022A	2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar	Mar
Revenue	£m	1.6	2.2	2.2	3.3	4.3
Adj EBITDA	£m	-1.9	-1.8	-1.6	-0.8	0.7
Adj EBIT	£m	-2.2	-2.2	-2.0	-1.1	0.4
Adj PBT	£m	-2.2	-2.2	-2.1	-1.1	0.4
Adj EPS	p	-9.3	-9.0	-4.3	-1.6	0.7
DPS	p	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		2022A	2023A	2024A	2025E	2026E
EV/sales	x	1.9	1.4	1.4	0.9	0.7
EV/EBIT (adj)	x	-1.4	-1.4	-1.6	-2.8	7.1
P/E (adj)	x	-1.2	-1.2	-2.6	-6.9	15.7
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-47.7%	-23.4%	-20.3%	-11.1%	10.6%

Income statement		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Sales	£m	2.2	2.2	3.3	4.3
Gross profit	£m	1.8	1.8	2.7	3.6
EBITDA (adjusted)	£m	-1.8	-1.6	-0.8	0.7
EBIT (adjusted)	£m	-2.2	-2.0	-1.1	0.4
Associates/other	£m	0.0	0.0	0.0	0.0
Net interest	£m	-0.0	-0.1	-0.0	-0.0
PBT (adjusted)	£m	-2.2	-2.1	-1.1	0.4
Total adjustments	£m	-0.1	0.0	-0.1	-0.1
PBT (stated)	£m	-2.3	-2.0	-1.2	0.3
Tax charge	£m	0.3	0.6	0.2	0.1
Minorities/Disc ops	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	-2.0	-1.4	-1.0	0.4
Adjusted earnings	£m	-2.0	-1.4	-1.0	0.4
Shares in issue (year end)	m	22.2	62.1	62.1	62.1
EPS (stated)	p	-9.0	-4.3	-1.6	0.7
EPS (adjusted, fully diluted)	p	-9.0	-4.3	-1.6	0.7
DPS	p	0.0	0.0	0.0	0.0

Cash flow		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
EBITDA	£m	-1.8	-1.6	-0.8	0.7
Net change in working capital	£m	0.2	-0.3	-0.1	-0.0
Other operating items	£m	0.5	0.6	0.2	0.1
Cash flow from op. activities	£m	-1.1	-1.3	-0.7	0.8
Cash interest	£m	-0.0	-0.0	-0.0	-0.0
Cash tax	£m	0.0	0.0	0.0	0.0
Capex	£m	-0.4	-0.1	-0.1	-0.1
Other items	£m	0.0	0.0	0.0	0.0
Free cash flow	£m	-1.6	-1.4	-0.8	0.7
Acquisitions / disposals	£m	0.0	0.0	0.0	0.0
Dividends	£m	0.0	0.0	0.0	0.0
Shares issued	£m	0.0	4.0	0.0	0.0
Other	£m	0.1	-0.1	-0.0	-0.0
Net change in cash flow	£m	-1.5	2.5	-0.8	0.7
Opening net cash (debt)	£m	3.0	1.5	3.9	3.1
Closing net cash (debt)	£m	1.5	3.9	3.1	3.8

Balance sheet		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Tangible fixed assets	£m	2.7	2.5	2.3	2.2
Goodwill & other intangibles	£m	0.8	0.7	0.7	0.7
Other non current assets	£m	0.0	0.0	0.0	0.0
Net working capital	£m	0.4	0.7	0.7	0.7
Other assets	£m	0.0	0.0	0.0	0.0
Other liabilities	£m	-0.3	-0.2	-0.2	-0.2
Gross cash & cash equivs	£m	1.5	3.9	3.1	3.8
Capital employed	£m	5.2	7.6	6.7	7.2
Gross debt	£m	0.5	0.4	0.4	0.4
Net pension liability	£m	0.0	0.0	0.0	0.0
Shareholders equity	£m	4.7	7.2	6.3	6.8
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	£m	5.2	7.6	6.7	7.2

Growth analysis		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Sales growth	%	34.1%	0.6%	48.7%	31.1%
EBITDA growth	%	2.5%	12.9%	47.5%	180.5%
EBIT growth	%	0.1%	10.5%	44.5%	139.3%
PBT growth	%	-0.3%	7.4%	44.8%	134.4%
EPS growth	%	3.0%	52.5%	62.7%	143.9%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Gross margin	%	82.2%	81.1%	83.3%	83.2%
EBITDA margin	%	-84.7%	-73.4%	-25.9%	15.9%
EBIT margin	%	-101.1%	-90.0%	-33.6%	10.1%
PBT margin	%	-101.9%	-93.8%	-34.8%	9.1%
Net margin	%	-91.9%	-65.7%	-30.5%	10.2%

Valuation analysis		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
EV/EBITDA	x	-1.7	-1.9	-3.6	4.5
EV/EBIT	x	-1.4	-1.6	-2.8	7.1
P/E	x	-1.2	-2.6	-6.9	15.7

Cash flow analysis		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Cash conv'n (op cash / EBITDA)	%	n/m	n/m	n/m	120.6%
Cash conv'n (FCF / EBITDA)	%	86.4%	86.0%	89.7%	105.9%
U/lying FCF (capex = depn)	£m	-1.5	-1.7	-0.9	0.6
Cash quality (u/l FCF / adj earn)	%	75.1%	117.5%	91.4%	131.0%
Investment rate (capex / depn)	x	1.5	0.2	0.5	0.5
Interest cash cover	x	n/a	n/a	n/a	20.5
Dividend cash cover	x	n/a	n/a	n/a	n/m

Working capital analysis		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Net working capital / sales	%	19.0%	29.8%	21.8%	16.7%
Net working capital / sales	days	69	109	79	61
Inventory (days)	days	14	19	13	13
Receivables (days)	days	98	158	138	107
Payables (days)	days	43	68	71	59

Leverage analysis		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Net debt / equity	%	net cash	net cash	net cash	net cash
Net debt / EBITDA	x	n/a	n/a	n/a	net cash
Liabilities / capital employed	%	9.2%	5.1%	5.8%	5.4%

Capital efficiency & intrinsic value		2023A	2024A	2025E	2026E
Year end:		Mar	Mar	Mar	Mar
Adjusted return on equity	%	-42.8%	-20.1%	-15.8%	6.4%
RoCE (EBIT basis, pre-tax)	%	-42.7%	-26.0%	-16.4%	6.0%
RoCE (u/lying FCF basis)	%	-29.2%	-22.3%	-13.6%	7.9%
NAV per share	p	21.1	11.6	10.1	11.0
NTA per share	p	17.6	10.4	9.0	9.8

FY24 trading

Results

The table below compares FY2024 results with FY2023. Revenues increased marginally YoY and the adjusted EBITDA loss improved by over £200k as the company initiated plans to lower its cash expenses. We note a larger-than-expected tax credit reported in the P&L saw the net income improve at a stronger level than the operating profit.

Figure 1: FY2024 versus FY2023

Year-end Mar (£000)	2023A	2024A	Difference (Δ or bps)
Revenues	2,179	2,191	0.6%
Gross profit	1,791	1,776	-0.8%
Gross margin	82.2%	81.1%	-113
Adjusted EBITDA	(1,846)	(1,608)	-12.9%
Operating profit	(2,306)	(1,937)	-16.0%
Net income	(2,003)	(1,440)	-28.1%
EPS (basic, GBp)	(9.03)	(4.29)	-52.5%

Source: Company data. EBITDA pre share based payments.

The table below shows the FY24 result versus our estimates, noting that revenues and gross profit were broadly in line with our expectations, while the adjusted EBITDA showed an improvement over our forecast.

Figure 2: FY2024 Actuals versus Cavendish forecasts

Year-end Mar (£000)	Actual	Forecast	Difference (Δ or bps)
Revenues	2,191	2,239	-2.1%
Gross profit	1,776	1,720	3.3%
Gross margin	81.1%	76.8%	425
Adjusted EBITDA	(1,608)	(1,770)	-9.2%
Operating profit	(1,937)	(2,170)	-10.7%
Net income	(1,440)	(1,835)	-21.5%
EPS (basic, GBp)	(4.29)	(5.87)	-26.9%

Source: Company data. Cavendish estimates. EBITDA pre share based payments.

Revenues

RUA Life Sciences generated revenues of £2,191k for FY24, up marginally on the FY23 result, though demonstrating a strong H2/24 recovery, considering the 28% decline in revenues previously reported for H1/24. H2/24 revenues grew by 30% YoY to £1.4m, representing 75% growth versus H1/24 revenues.

Profitability

RUA Life Sciences generated gross profits of £1,776k for FY24 at a margin of 81%. This compares with £1,791k for FY23 at a margin of 82%.

The company has maintained its focus on cost control and reduced its administrative expenses in FY24 to £3,792k from £4,169k in FY23. Through the elimination of certain roles within the business, the company has generated total annual payroll savings of over £600k.

R&D expense was reduced by about £200k in the year, following the strategy review which resulted in a scaling back of R&D investment. Expensed R&D for FY24 was £873k versus £1,072k in FY23, relating to investment in the vascular graft and heart valve programmes.

The group's adjusted EBITDA for the period was -£1,608k versus a loss of £1,846 for FY23.

Cash

Cash and short-term deposits at the end of March 2024 were £3,931k following a £4m raise completed in December 2023.

Outlook

The company expects to engage with licencees to grow RUA Biomaterials revenue and enter additional contracts to grow RUA Contract Manufacturing revenue, with substantial opportunities being pursued.

At this time, we leave our forecasts unchanged, updating the balance sheet for the new base year. We note that RUA Life Sciences closed FY24 with cash balances of about £650k higher than we had forecast, and we maintain this increase in cash through our FY25E and FY26E forecasts, as shown in the table below.

Figure 3: Change to estimates

Year-end Mar (£000)		2023A	2024E	2025E	2026E
Revenues	Previous	2,179	2,239	3,259	4,274
	New	2,179	2,191	3,259	4,274
	% Diff	0.0%	-2.1%	0.0%	0.0%
EBITDA (adj)	Previous	(1,846)	(1,770)	(845)	680
	New	(1,846)	(1,608)	(845)	680
	% Diff	0.0%	-9.2%	0.0%	0.0%
EBIT	Previous	(2,306)	(2,170)	(1,195)	330
	New	(2,306)	(1,937)	(1,195)	330
	% Diff	0.0%	-10.7%	0.0%	0.0%
Net Profit	Previous	(2,003)	(1,835)	(992)	435
	New	(2,003)	(1,440)	(992)	435
	% Diff	0.0%	-21.5%	0.0%	0.0%
EPS (basic, GBp)	Previous	(9.03)	(5.87)	(1.69)	0.74
	New	(9.03)	(4.29)	(1.60)	0.70
	% Diff	0.0%	-26.9%	-5.7%	-5.7%
Cash	Previous	1,484	3,278	2,481	3,160
	New	1,484	3,931	3,134	3,814
	% Diff	0.0%	19.9%	26.3%	20.7%

Source: Company data. Cavendish estimates. EBITDA pre share-based payments.

Business units

Strategy

RUA Life Sciences recently revised its strategy and now seeks to reduce the timeframe and required funding for the company to become cash generative. The company seeks to achieve this goal by the following business unit strategies:

- RUA Biomaterials – to engage with licencees to grow licence and royalty income;
- RUA Contract Manufacturing – to target a doubling of scale over the next two years, with business development focused on long-term, high value opportunities;
- RUA Vascular – to seek third-party funding to finance the regulatory development of its vascular graft product through to FDA approval, while retaining an equity interest, contract development and manufacturing agreement of a form of licensing on the product;
- RUA Structural Heart – to seek to license its novel composite material, AurTex, to the heart-valve industry via material supply and license agreements.

RUA Biomaterials

RUA Biomaterials generated Elast-Eon polymer licence and royalty income of £496k for FY24, down from £554k reported for FY23. Revenues were impacted by adverse currency movements (about £35k) relating to the US\$ to Sterling rate and lower polymer shipments from Biomerics, RUA Biomaterials' partner, to one customer, due to shipment timing.

RUA Life Sciences remains positive on the growth potential of this business, noting positive indications from existing licensees and the identification of new purchasers in recent months, including an enquiry about a long-term licence for exclusivity in a currently unlicensed field of use.

RUA Biomaterials generated an operating margin of 85% in FY24, with costs relating to patent costs around the Elast-Eon material.

RUA Contract Manufacture

RUA Contract Manufacture revenues increased 3% YoY to £1,679k and generated an operating profit of £931k versus £794k in FY23. Importantly, revenues recovered strongly in H2/24, growing over 50% YoY to around £1.1m. H1/24 revenues had been impacted by a technical problem affecting products for a major customer. However, the issue has been resolved, allowing shipments to re-commence in H2/24, with RUA remaining a trusted supplier to the customer.

RUA Vascular

RUA Life Sciences notes that its vascular graft, developed by this business unit, is now “fully prepared to undergo the regulatory testing regime” that has been agreed with the FDA. The company estimates that the cost of this testing programme will be some £6m and could be delivered in 30 to 36 months upon commencing patient recruitment.

RUA Structural Heart

RUA Structural Heart has developed a novel composite for use as a heart valve material, which it has branded AurTex, which the company is aiming to license to established heart valve manufacturers rather than develop its own replacement heart valve product. RUA notes that on-going in-house testing continues to generate encouraging data, demonstrating the properties of the composite that the company believes will make it an attractive licensing proposition.

At this time, the material is being tested by a potential partner, with the full data pack from internal testing expected to be available to the wider industry shortly.

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Financials

Figure 4: RUA Life Sciences Profit & Loss statement

Year-end March (£000)	2022A	2023A	2024A	2025E	2026E
Revenues	1,625	2,179	2,191	3,259	4,274
<i>growth</i>	6.3%	34.1%	0.6%	48.7%	31.1%
COGS	(267)	(388)	(415)	(544)	(719)
<i>% of revs</i>	16.4%	17.8%	18.9%	16.7%	16.8%
Gross profit	1,358	1,791	1,776	2,715	3,555
<i>gross margin</i>	83.6%	82.2%	81.1%	83.3%	83.2%
Operating expenses	(3,315)	(3,709)	(3,463)	(3,660)	(2,975)
<i>% of revs</i>	204.0%	170.2%	158.1%	112.3%	69.6%
Other income	66	72	79	100	100
Other expense	(3)	0	0	0	0
EBITDA, adj	(1,894)	(1,846)	(1,608)	(845)	680
Depr & Amort	(313)	(358)	(364)	(250)	(250)
Share based payments	(145)	(102)	35	(100)	(100)
Operating profit	(2,352)	(2,306)	(1,937)	(1,195)	330
Finance, net	(8)	(16)	(83)	(40)	(40)
Pre-tax profit	(2,360)	(2,322)	(2,020)	(1,235)	290
Tax	293	319	580	242	145
<i>tax rate</i>	12.4%	13.7%	17.0%	19.6%	-50.0%
Net income	(2,067)	(2,003)	(1,440)	(992)	435
No. shares, period end	21,187	22,185	62,060	62,060	62,060
No. shares, average	22,185	22,185	33,567	62,060	62,060
EPS (GBp)	(9.3)	(9.0)	(4.3)	(1.6)	0.7

Source: Company data. Cavendish estimates

Figure 5: RUA Life Sciences Balance Sheet

Year-end March (£000)	2022A	2023A	2024A	2025E	2026E
Goodwill	301	301	301	301	301
Intangible assets	521	470	419	419	419
PP&E	2,597	2,739	2,456	2,306	2,156
Total non-current asset	3,419	3,510	3,176	3,026	2,876
Inventory	124	81	112	117	152
Trade receivables	1,120	588	950	1,229	1,249
Cash and equivalents	2,963	1,484	3,931	3,134	3,814
Total current asset	4,207	2,153	4,993	4,480	5,215
Total assets	7,626	5,663	8,169	7,506	8,091
Trade payables	410	255	408	637	687
Borrowings	23	29	31	31	31
Lease liabilities	39	81	86	86	86
Other	39	49	29	29	29
Total current liabilities	511	414	554	783	833
Borrowings	199	165	132	132	132
Lease liabilities	83	200	140	140	140
Deferred tax	75	85	74	74	74
Other non-current liabilities	174	116	87	87	87
Total non-current liabilities	531	566	433	433	433
Total liabilities	1,042	980	987	1,216	1,266
Issued capital	1,109	1,109	3,103	3,103	3,103
Share premium	11,729	11,729	13,709	13,709	13,709
Capital redemption reserve	11,840	11,840	11,840	11,840	11,840
Other reserve	(1,552)	(1,450)	(1,485)	(1,385)	(1,285)
Accumulated profit	(16,542)	(18,545)	(19,985)	(20,977)	(20,542)
Total equity	6,584	4,683	7,182	6,290	6,825
Total equity & liabilities	7,626	5,663	8,169	7,506	8,091

Source: Company data. Cavendish estimates

Figure 6: RUA Life Sciences Cash Flow statement

Year-end March (£000)	2022A	2023A	2024A	2025E	2026E
Net income	(2,067)	(2,003)	(1,440)	(992)	435
Amortisation	53	51	51	50	50
Depreciation	259	307	313	200	200
Share based payments	145	102	(35)	100	100
Interest income	8	16	83	40	40
Tax income	(293)	(319)	(580)	(242)	(145)
Change in inventory	(39)	43	(31)	(5)	(35)
Change in receivables	(53)	327	(362)	(279)	(20)
Change in payables	(453)	(203)	104	229	50
Tax received	87	533	569	242	145
Net cash from operations	(2,353)	(1,146)	(1,328)	(657)	820
CAPEX PP&E	(904)	(449)	(55)	(50)	(50)
CAPEX intangibles	0	0	0	(50)	(50)
Acquisition	0	0	0	0	0
Interest received	(8)	(28)	(30)	(40)	(40)
Cash flow from investing	(912)	(477)	(85)	(140)	(140)
Share issue, net	0	0	3,974	0	0
Change in borrowings	(66)	132	(86)	0	0
Cash flow from financing	(66)	132	3,888	0	0
Change in cash	(3,331)	(1,491)	2,475	(797)	680
FX	0	12	(28)	0	0
Opening cash	6,294	2,963	1,484	3,931	3,134
Closing cash	2,963	1,484	3,931	3,134	3,814

Source: Company data. Cavendish estimates

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Investment risk

Investing in shares presents risks and opportunities. The past is not necessarily a guide to the future performance of an investment. The value of investments and the income derived from them may fall as well as rise and investors may not get back the amount invested. Some investments discussed in this publication may have a high level of volatility. High volatility investments may experience sudden and large falls in their value which may cause losses. The information on future performance in this communication is an illustration and is not a reliable guide to actual future performance.

Non-UK stocks

International investing includes risks related to political and economic uncertainties of foreign countries, as well as currency risk.

Disclosures

Analyst certification

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Recommendations definitions

Definition of research recommendations

Expected absolute returns

BUY is an expected return greater than 10%

HOLD is an expected return -10% - +10%

SELL is an expected return less than -10%

UNDER REVIEW: recommendation and/or forecasts are under review pending further clarity as to the company's financial and/or operational position

CORP: denotes corporate client of Cavendish Securities plc or Cavendish Capital Markets Limited

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Distribution of investment recommendations as per 23/07/2024

	Corporate client no.	Corporate client %	Total no.	Total %
Buy	2	1.5%	13	8.3%
Hold	0	0.0%	0	0.0%
Sell	0	0.0%	0	0.0%
Under Review	0	0.0%	0	0.0%
Corp	132	96.4%	144	91.7%

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	Target price
RUA Life Sciences	2,6,8,9,10	1 December 23	Corp	11.8p	25.0p

Source: Cavendish

A list of all the recommendations produced/issued by the relevant Sales Person / Research Analyst on any financial instrument or issuer disseminated during the preceding 12 months is available upon request free of charge. Please contact the appropriate Cavendish analyst or your Cavendish contact on 020 7220 0500.

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