

Tissue Regenix

Update

Arthrex collaboration extended into Europe

13 November 2018

Tissue Regenix has signed an additional agreement with Arthrex for pan-European distribution of its BioRinse portfolio, which follows a US agreement signed in March 2018. This provides Tissue Regenix with a significant partner in two key geographies. Arthrex, a global leader in the field of sports medicine, specialises in the marketing of innovative products. Efforts will initially focus on the UK, before gradually launching in other European countries as approvals are gained. The extension of the collaboration should generate material sales growth in the coming years; but, to be conservative, we are maintaining our valuation at £245m (20.9p a share).

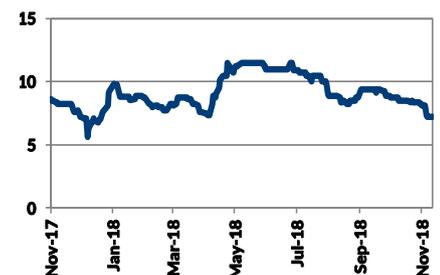
Year-end: December 31	2016 ¹	2017	2018E	2019E
Sales (£m)	1.4	5.2	10.8	16.3
Adj. PBT (£m)	(10.9)	(9.7)	(9.3)	(6.7)
Net Income (£m)	(9.9)	(9.4)	(8.6)	(6.2)
Adj. EPS (p)	(1.29)	(1.00)	(0.77)	(0.56)
Cash (£m)	8.2	16.4	7.0	1.3 ²
EBITDA (£m)	(10.8)	(10.1)	(8.0)	(5.2)

Source: Trinity Delta ¹11 months to 31 December 2016; ² The cash position in 2019 includes a capital raise of £2m. Adjusted numbers exclude exceptionals.

- Broadening the opportunities for BioRinse in Europe** The European orthobiologics market is estimated to be worth £450m. The BioRinse portfolio of decellularised bone products are the only available products verified as osteoinductive, and have proven their potential in the US. Under the new agreement, Arthrex will initially distribute in the UK and over time roll out across Europe where it has a strong distribution network. This agreement is an expansion of the collaboration signed between the companies in March 2018 where Arthrex took a selection of the BioRinse products under their own brand 'Allosync' for distribution in the US.
- Collaborating with a global leader in sports medicine** The demand for minimally invasive surgical procedures continues to rise, and Arthrex is an acknowledged leader in this field. It is a privately owned US-based company with a global salesforce, and has sales of c \$2bn from marketing over 1,000 products, many of which are orthobiologics. The company prides itself on bringing innovative products to the orthopaedic market, which reflects well on Tissue Regenix and its products.
- A significant deal, but benefits will take time** This agreement should generate significant revenues for Tissue Regenix in the years to come, and is a further justification of the acquisition of CellRight Technologies in 2017. However, it will take time for the revenues to build as the BioRinse products are currently only approved for sale in the UK; additionally, innovative medtech products always take time to gain market traction. In the UK, Pennine Healthcare is already marketing the BioRinse portfolio for spinal applications, which is complementary to the arthroscopy markets that Arthrex will be addressing.
- Valuation unchanged at 20.9p/share** Despite the potential value of the new Arthrex deal, we leave our DCF valuation of Tissue Regenix unchanged at £245m (20.9p a share) to be conservative; similarly, we make no changes to our estimates. Having said that, we now see greater potential upside to our valuation.

Price	7.25p
Market Cap	£85.0m
Enterprise Value	£72.8m
Shares in issue	1,171m
12 month range	5.5-12.2p
Free float	14.4%
Primary exchange	AIM London
Other exchanges	N/A
Sector	Healthcare
Company Code	TRX

Corporate client Yes



Company description

Tissue Regenix is a regenerative medicine company with a portfolio of soft tissue and bone products and two proprietary platform, dCELL, and BioRinse. Applications include wound care/general surgery, orthopaedics, sports medicine, and dental care. Commercialisation of the leading products are underway.

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Exhibit 1: Summary of financials

Year-end: December 31	£'000s	2015*	2016**	2017	2018E	2019E	2020E
INCOME STATEMENT							
Revenues		816	1,443	5,233	10,811	16,265	23,179
Cost of goods sold		(154)	(354)	(2,627)	(5,451)	(8,031)	(11,377)
Gross Profit		662	1,089	2,606	5,360	8,234	11,802
Operating expenses		(10,768)	(11,939)	(12,294)	(14,774)	(14,917)	(16,362)
Share based payments		(136)	(210)	(30)	(32)	(33)	(35)
Underlying operating profit		(10,242)	(11,060)	(9,718)	(9,446)	(6,716)	(4,595)
Other revenue/expenses		0	0	(1,098)	0	0	0
EBITDA		(9,997)	(10,759)	(10,109)	(8,017)	(5,242)	(3,131)
Operating Profit		(10,242)	(11,060)	(10,816)	(9,446)	(6,716)	(4,595)
Interest income		213	114	47	140	52	13
Profit Before Taxes		(10,029)	(10,946)	(10,769)	(9,306)	(6,665)	(4,582)
Adj. PBT		(10,029)	(10,946)	(9,671)	(9,306)	(6,665)	(4,582)
Current tax income		527	1,034	1,348	739	448	33
Net Income		(9,502)	(9,912)	(9,421)	(8,567)	(6,217)	(4,549)
Minority interests		92	126	200	(63)	(95)	(135)
Net income attributable to equityholders		(9,410)	(9,786)	(9,221)	(8,631)	(6,312)	(4,684)
EPS (p)		(1.27)	(1.29)	(1.00)	(0.77)	(0.56)	(0.42)
Adj. EPS (p)		(1.27)	(1.29)	(1.00)	(0.77)	(0.56)	(0.42)
DPS (p)		0.00	0.00	0.00	0.00	0.00	0.00
Average no. of shares (m)		739.9	760.1	920.5	1,125.9	1,125.9	1,125.9
<i>Gross margin</i>		81%	75%	50%	50%	51%	51%
<i>EBITDA margin</i>		N/A	N/A	N/A	N/A	N/A	N/A
<i>Underlying operating margin</i>		N/A	N/A	N/A	N/A	N/A	N/A
BALANCE SHEET							
Current assets		22,296	11,964	23,463	15,344	11,021	11,838
Cash and cash equivalents		19,907	8,173	16,423	6,950	1,289	846
Accounts receivable		2,325	3,130	4,168	4,287	4,672	5,381
Inventories		64	661	2,872	4,107	5,061	5,611
Other current assets		0	0	0	0	0	0
Non-current assets		901	1,637	22,299	24,586	23,841	23,142
Property, plant & equipment		901	1,087	2,994	3,084	3,190	3,318
Intangible assets		0	550	19,305	21,502	20,651	19,825
Current liabilities		(1,958)	(2,065)	(4,781)	(5,974)	(8,601)	(13,234)
Short-term debt		0	0	0	0	(2,000)	(7,000)
Accounts payable		(1,958)	(2,065)	(4,781)	(5,974)	(6,601)	(6,234)
Other current liabilities		0	0	0	0	0	0
Non-current liabilities		0	0	(1,459)	(2,970)	(1,459)	(1,459)
Equity		21,239	11,536	39,522	30,986	24,802	20,288
CASH FLOW STATEMENTS							
Operating cash flow		(8,667)	(10,697)	(9,739)	(7,267)	(5,421)	(4,677)
Profit before tax		(10,242)	(11,060)	(10,816)	(9,446)	(6,716)	(4,595)
Non-cash adjustments		381	511	737	1,461	1,508	1,499
Change in working capital		236	(581)	(1,248)	(317)	(786)	(1,730)
Interest paid		213	114	47	140	52	13
Taxes paid		745	319	1,541	895	522	136
Investing cash flow		(702)	(1,037)	(20,168)	(2,206)	(2,240)	(766)
CAPEX		(711)	(1,037)	(130)	(137)	(143)	(150)
Capitalised development costs		0	0	(93)	(558)	(586)	(615)
Other investing cash flows		9	0	(19,945)	(1,511)	(1,511)	0
Financing cash flow		19,019	0	37,991	0	2,000	5,000
Proceeds from equity		19,019	0	37,991	0	0	0
Increase in loans		0	0	0	0	2,000	5,000
Other financing cash flow		0	0	0	0	0	0
Net increase in cash		9,650	(11,734)	8,084	(9,473)	(5,661)	(443)
Exchange rate effects		0	0	166	0	0	0
Cash at start of year		10,257	19,907	8,173	16,423	6,950	1,289
Cash at end of year		19,907	8,173	16,423	6,950	1,289	846
Net cash at end of year		19,907	8,173	16,423	6,950	(711)	(6,154)

Source: Tissue Regenix, Trinity Delta Note: Adjusted numbers exclude exceptionals. * FY15 refers to the 12 months ending on 31 January 2016; **FY16 refers to the 11 months ending on 31 December 2016 The short-term debt in FY19 and FY20 are indicative of the company's funding requirement.

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