

**Market data**

EPIC/TRK	TRX
Price (p)	10.5
12m High (p)	16.0
12m Low (p)	5.5
Shares (m)	1,171.6
Mkt Cap (£m)	123.0
EV (£m)	106.6
Free Float*	27%
Market	AIM

*As defined by AIM Rule 26

Description

Tissue Regenix (TRX) is a medical device company focused on regenerative medicine. Patented decellularisation technologies remove DNA, cells and other material from animal/human tissue and bone, leaving scaffolds that can be used to repair diseased or worn-out body parts. Its products have multiple applications.

Company information

CEO	Steve Couldwell
CFO (interim)	Paul Below
Chairman	John Samuel
	+44 330 430 3052
	www.tissueregenix.com

Key shareholders

Directors	4.3%
Invesco	29.0%
Woodford Inv. Mgt.	25.1%
IP Group	13.8%
Baillie Gifford	4.3%
Directors	4.3%

Diary

3 Sep 2018	Interims
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Analysts

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Tissue Regenix**1H'18 preview: organic plus inorganic growth**

TRX has a broad portfolio of regenerative medicine products for the biosurgery, orthopaedics, dental and cardiac markets. The company has two proprietary decellularised technology platforms for the repair of tissues and bone. 2017 was a dynamic year for the group, growth being boosted by the acquisition of CellRight Technologies in August, which was borne out by the 2017 full-year results. In anticipation of the 2018 interim numbers, expected in September, we outline our forecasts for reported and *pro forma* sales growth. This is intended as a preview for investors, to clarify the impact of both organic and inorganic growth.

- **Strategy:** To build an international regenerative medicine business with a portfolio of products using proprietary dCELL and BioRinse technology platforms, underpinned by compelling clinical outcomes. TRX is looking to expand its global distribution network, via strategic partnerships, to drive sales momentum.
- **Interims preview:** Reported group sales are forecast to grow 273% in 1H'18 to £5.1m (£1.4m), with all three business areas contributing to growth. On a *pro forma* basis, as if CellRight had been acquired on 1 January 2017, the underlying growth rate is forecast to be a very respectable 33%, from £3.9m in 1H'17.
- **EBITDA:** Although the new management team is continuing to focus on controlling costs, a full six months of CellRight costs are included in 1H'18 and the 1H'18 SG&A number includes potential legal fees. Consequently, the EBITDA loss will rise (in 1H'18 only) to an estimated -£4.9m (-£4.8m).
- **CFO:** In July, TRX confirmed the appointment of a new CFO. Gareth Hywel Jones (start date 30 November) will take over from Paul Below, who is the current interim CFO. Mr Jones is joining from Applied Graphene Materials and brings a great deal of experience from UK and US listed businesses, and private equity.
- **Investment summary:** TRX is building commercial momentum through three value drivers: sales of BioSurgery products in the US; expansion of combined CellRight and TRX technologies in Dental, Orthopaedics and Spine; and preparation for OrthoPure XT launch in the EU in 2018. Early signs of the benefits derived from CellRight are apparent, which should hasten the time to reach sustainable profitability.

Financial summary and valuation

Year-end Dec (£m)	*2016	**2016	2017	2018E	2019E	2020E
Sales	0.82	1.44	5.23	11.28	18.68	25.54
EBITDA	-9.86	-10.55	-8.98	-9.47	-4.25	-0.37
Underlying EBIT	-10.11	-10.85	-9.69	-10.63	-5.43	-1.57
Reported EBIT	-10.24	-11.06	-10.82	-10.73	-5.53	-1.67
Underlying PBT	-9.89	-10.74	-9.64	-10.60	-5.42	-1.59
Statutory PBT	-10.03	-10.95	-10.77	-10.70	-5.52	-1.69
Underlying EPS (p)	-1.26	-1.28	-0.90	-0.84	-0.40	-0.08
Statutory EPS (p)	-1.28	-1.30	-1.02	-0.85	-0.41	-0.09
Net (debt)/cash	19.91	8.17	16.42	5.28	-2.14	-4.68
Capital increase	19.02	0.00	37.99	0.00	0.00	0.00
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	17.0	7.9	4.8	3.5

*Year to January. **11 months to December. Source: Hardman & Co Life Sciences Research

Preview of 1H'18

Tissue Regenix is due to release its numbers for the six-month period to the end of June 2018 this coming September. Given that this will be the first time that the CellRight acquisition is present across a complete reporting period, we have outlined below our expectations for *pro forma* sales growth, so that investors can easily recognise the contribution of the acquisition vs. organic growth.

Sales

Biosurgery

DermaPure sales are forecast to grow 37% to \$1.73m/£1.31m (\$1.07m/£0.85m), indicating that this product is continuing to gain momentum from good clinical outcome reports and from its increasing number of relationships in the US. Because of traditional period-end buying patterns in medical devices, the absolute \$ sales number is only modestly ahead of the \$1.43m sales reported for 2H'17.

Orthopaedics (CellRight)

CellRight was acquired on 8 August 2017 (2H'17), adding the BioRinse bone decellularisation platform to the group's offering in orthopaedics. In fiscal 2017, during the early stages of integration, CellRight added \$2.86m/£2.17m to fiscal 2017 for the (just under) five-month period, which would also have included the period-end buy-in mentioned above. TRX reported earlier that CellRight had made a good start to fiscal 2018 following some new product launches. Therefore, we envisage that CellRight will, in 1H'18, see orthopaedic sales close to those reported in 2H'17.

On a *pro forma* basis, CellRight had sales of \$6.5m/£5.1m in 2017, which, based on information provided at the time of the acquisition, we estimate to have a 1H:2H split of \$3.1m:\$3.4m. For 1H'18, we are forecasting 23% growth over the estimated *pro forma* number to \$4.0m/£3.0m.

GBM-V

Given the demand, and the resolution of some raw material supply issues, we are forecasting 50% growth at GBM-V in Germany to €0.88m/£0.79m (€0.61m/£0.52m).

For the whole group, therefore, sales are forecast to grow 33% on a *pro forma* basis to £5.1m (£3.9m), versus 273% on a reported basis (£1.38m in 1H'17).

1H'17 <i>pro forma</i> vs 1H'18E			
Business unit	1H'17 <i>pro forma</i> sales	1H'18E	Estimated <i>pro forma</i> growth
Orthopaedics	\$3.1m/£2.5m	\$4.0m/£3.0m	+23%
Group	£3.9m	£5.1m	+33%

Pro forma: estimates as if CellRight acquisition made on 1 January 2017
Source: Hardman & Co Life Sciences Research

EBITDA

EBITDA losses are expected to, temporarily, increase in 1H'18, to -£4.9m (-£4.8m). This is due to £0.5m in potential legal fees, which we have allowed for in the SG&A for 1H'18, and a full six months of CellRight costs, also included in 1H'18.

Conclusion

TRX is expected to report strong *pro forma* sales growth (33%) in 1H'18. Coupled with careful cost control, this will continue its trend towards sustainable profitability.

Financial summary – half years

- ▶ **Sales:** Steady half-year -on -half-year group sales growth, driven by all business units, including Biosurgery in the US, the GBM-V tissue bank in Europe, and now Orthopaedics in the US (CellRight).
- ▶ **Orthopaedics:** Currently, all sales for the orthopaedics business are being made in the US. 2H'17 contains only five months' of CellRight sales, which alters the reported half-year growth pattern.
- ▶ **SGA:** A full six months of CellRight costs, plus potential legal fees within SG&A, are accounted for in 1H'18, which means that the EBITDA loss temporarily increases for 1H'18, to a forecast -£4.9m (-£4.8m).

Financial summary: half-year analysis				
Year-end Dec (£m)	1H'17	2H'17	1H'18E	2H'18E
GBP:USD	1.251	1.327	1.318	1.364
Biosurgery	0.85	1.08	1.31	1.71
Orthopaedics	0.00	2.17	3.03	3.46
GMB-V	0.52	0.61	0.79	0.98
Sales	1.38	3.86	5.13	6.15
COGS	-0.51	-2.12	-2.35	-2.79
Gross profit	0.87	1.74	2.79	3.36
Gross margin	63.1%	45.1%	54.3%	54.7%
SG&A	-4.43	-5.18	-6.50	-6.27
R&D	-1.45	-1.24	-1.77	-2.23
Underlying EBITDA	-4.80	-4.41	-4.91	-4.56
Depreciation	-0.21	-0.27	-0.28	-0.28
Amortisation	0.00	0.00	-0.30	-0.30
Other income	0.00	0.00	0.00	0.00
Underlying EBIT	-5.01	-4.68	-5.49	-5.14
Share-based costs	-0.14	0.11	-0.05	-0.05
Exceptional items	-0.30	-0.80	0.00	0.00
Statutory operating profit	-5.44	-5.37	-5.54	-5.19
Net interest	0.00	0.00	0.00	0.00
Other	0.02	0.03	0.01	0.01
Pre-tax profit	-4.99	-4.65	-5.47	-5.13
Extraordinary items	0.00	0.00	0.00	0.00
Reported pre-tax	-5.43	-5.34	-5.52	-5.18
Tax payable/credit	0.66	0.66	0.35	0.66
Underlying net income	-4.33	-3.99	-5.12	-4.47
Statutory net income	-4.77	-4.68	-5.17	-4.52
Ordinary 0.5p shares:				
Weighted average (m)	760.7	1,080.3	1,171.1	1,171.3
Underlying basic EPS (p)	-0.57	-0.37	-0.44	-0.38
Statutory basic EPS (p)	-0.63	-0.43	-0.44	-0.39
Net cash	3.61	16.42	10.87	5.28

Source: Hardman & Co Life Sciences Research

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