

Corporate update

Trading statement

Following the year end, management issued a trading statement to the market. Overall, while sales are a little lower than forecast due to some tissue sourcing shortages and the timelines for signing new deals, this was compensated for by increased grant income and lower costs, such that the bottom line looks set to be ahead of forecasts.

- ▶ **Sales:** Underlying growth was around +14.0% compared to our forecast of +20%, with reported numbers receiving a forex benefit of about £380k to £3,950k (£3,130k), such that reported growth will be +26%
- ▶ **Asia:** Growth continues as new customers have come on-line, benefiting from sales channel investment last year. New distributors have recently cleared import documentation, and first shipments have been exported to the Chinese JV
- ▶ **US accounts:** While some benefits of increased investment in marketing have been observed, the time taken to close deals with new customers has taken longer in some cases – management estimates the sales cycle at 12-18 months
- ▶ **Tissue:** The pericardium tissue business continued to grow strongly (+30% est) but this was still below demand, hence the recent tissue supply initiatives
- ▶ **Grant income:** Considered to be ‘other income’ rather than product sales and is not included in our sales forecasts, the company includes in its total revenue figures. The outcome was £150k receivable compared to our forecast of £100k
- ▶ **Costs:** Overall costs look set to emerge slightly lower than expected. COGS have not increased as much as forecast, while some expenditure and personnel hires have moved into fiscal 2018, suggesting a better EBITDA outcome

Actual vs forecast summary					
Year end March (£000)	2016 actual	2017 indicative	CER Growth %	2017 forecast	Delta
Sales	3,130	3,950	+14.5%	4,080	-130
COGS	-811	-1,045		-1,080	+35
Gross margin	74.1%	73.5%		73.6%	
Other income	114	150		100	+50
EBITDA	-374	-1,248		-1,277	+29
Underlying EBIT	-721	-1,694		-1,724	+30
Underlying EPS (p)	-0.64	-1.06		-1.08	+0.02

*Summary only – some cost lines not shown
Source: Hardman & Co Life Sciences Research*

Corporate evolution

- ▶ The Board has decided to relocate its US HQ from San Jose to Minneapolis during the first half of fiscal 2018 in order to bring closer together the global commercial function and the R&D teams
- ▶ The team will be led by Chris Wattengel who recently joined the company after 16 years at Kensey Nash (now DSM) where he was closely involved product development, licensing and M&A, and in 510(k) and CE Mark regulatory approvals
- ▶ This combination of activities will result in cost savings which will be re-invested in future product development projects, particularly cartilage/bone repair products
- ▶ Dr Stewart White, current CSO and formerly CEO, is standing down from the Board to pursue other opportunities. He will continue to consult to the SAB

Financial summary

Forecast summary						
Year end March (£000)	2014	2015	2016	2017E	2018E	2019E
GBP:USD	1.590	1.574	1.459	1.304	1.304	1.304
Profit & Loss:						
Sales	24	973	3,130	3,950	5,200	7,270
COGS	-12	-214	-811	-1,045	-1,350	-1,800
Gross profit	12	759	2,319	2,905	3,851	5,471
Gross margin (%)	49.7%	78.0%	74.1%	73.5%	74.0%	75.2%
SG&A	-376	-1,325	-2,440	-3,338	-3,900	-4,399
R&D	0	-160	-367	-965	-1,140	-1,210
EBITDA	-364	-663	-374	-1,248	-1,040	12
EBITDA margin (%)	-	-	-	-	-20.0%	0.2%
Depreciation	-17	-130	-347	-447	-527	-547
EBIT	-381	-793	-721	-1,694	-1,566	-535
EBIT margin (%)	-	-	-	-	-30.1%	-7.4%
Net interest	0	-128	-262	-103	-172	-139
Pre-tax profit	-381	-920	-983	-1,797	-1,738	-674
Tax	0	-21	-114	-148	-193	-241
Net income	-381	-942	-1,097	-1,946	-1,931	-916
Weighted av. shares (m)	43.7	96.4	171.2	183.5	317.0	324.5
Underlying EPS (p)	-0.87	-0.98	-0.64	-1.06	-0.61	-0.28
Fully diluted EPS (p)	-0.87	-0.98	-0.64	-1.06	-0.61	-0.28
Balance sheet:						
Share capital	683	1,755	1,759	1,759	1,839	1,919
Reserves	5,573	11,099	12,137	20,347	19,236	18,140
Provisions	0	285	253	189	142	106
Debt	0	109	109	2,109	3,989	2,769
less: Cash	1,492	3,391	2,493	9,163	7,644	3,278
Invested capital	7,174	14,176	14,203	17,678	18,798	19,685
Net cash/debt	1,492	3,282	2,384	7,054	3,655	509
Cashflow:						
Operating profit	-381	-793	-721	-1,694	-1,566	-535
Working capital	-86	-228	422	-512	-225	-196
Tax & interest	0	-28	-191	-106	-320	-332
Operational cashflow	-525	-1,180	-338	-1,996	-1,905	-1,737
Capital expenditure	0	-159	-464	-130	-294	-200
Free cashflow	-525	-1,326	-801	-2,126	-2,199	-1,937
Acquisitions	-1,357	-2,192	-207	-1,027	-2,200	-1,209
Share issues	3,374	5,422	207	7,743	1,000	0
Change in net debt	1,492	1,790	-898	4,670	-3,399	-3,146
Hardman FCF/sh. (p)	-1.20	-1.22	-0.20	-1.09	-0.60	-0.54

Source: Hardman & Co Life Sciences Research

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