

Market data

EPIC/TKR	COS
Price (p)	8.12
12m High (p)	14.75
12m Low (p)	6.75
Shares (m)	171.4
Mkt Cap (£m)	13.9
EV (£m)	11.5
Free Float*	78%
Market	AIM

*As defined by AIM Rule 26

Description

COS develops, manufactures and supplies medical grade collagen biomaterials, tissues and devices. Its products are used in research, *in-vitro* diagnostics, medical devices and regenerative medicine. The company provides R&D and contract services to a global and diverse customer base.

Company information

CEO	Jamal Rushdy
CFO	Gill Black
Chairman	David Evans

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www.collagensolutions.co.uk

Key shareholders

Directors + management	22.3%
Helium Rising Stars	7.6%
Northern Venture Trust	7.4%
Calculus Capital	6.3%
Legal & General	5.8%
Hargreave Hale	3.6%

Next event

Aug-16	AGM
Dec-16	Interims
Jly-17	Finals

Analysts

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Collagen Solutions

Focused scalable approach to growth opportunities

Collagen Solutions is a biomaterials company developing and manufacturing medical grade collagen components for use in medical devices, *in vitro* diagnostics, and regenerative medicine. New leadership has formed a global commercialisation team and introduced a number of initiatives to build on the strong base business clearly visible in the 2016 results, and execute on a scalable growth strategy. COS is also establishing a pipeline of finished devices, such as ChondroMimetic, to add incremental value to the business. These initiatives are enhancing significantly the value of the company which is not being reflected in the current share price.

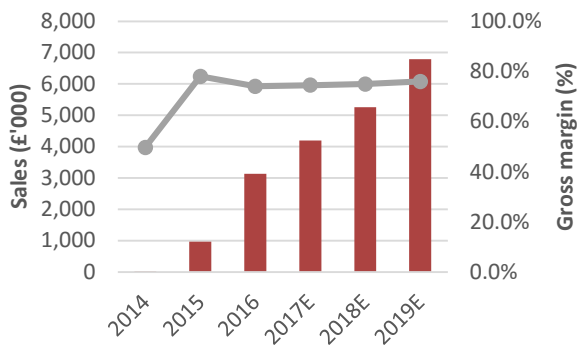
- ▶ **Strategy:** Under new leadership, strategy has been re-focused and a number of initiatives introduced to accelerate the growth opportunities. The strategy to move COS from a reliable collagen supplier to one that also has proprietary products will move it into profitability and cash generative at a faster pace.
- ▶ **2016 results:** Underlying sales growth for 2016, at +74%, was an exceptional performance and ahead of expectations that had been revised downwards in January given uncertainty surrounding year end contracts. This fell through to the bottom line with period end net cash also better than forecast at £2.4m.
- ▶ **Valuation:** Our DCF valuation has risen 16% to £54m or 32p per share on the back of these improved results. There are few quoted competitors that could be considered as comparator companies for valuation purposes. The closest, Innocoll, is developing proprietary products and commands an EV of £140m.
- ▶ **Risks:** Timing of development and manufacturing contracts, supply agreements, customers' regulatory delays, collagen sources and potential competition from alternate biomaterials. However, sequential half year sales growth and c.70% of 2017 sales secured, suggest that risks to forecasts have been minimised.
- ▶ **Investment summary:** 2016 was transformational for COS, the new leadership team has realigned strategy onto an accelerated growth platform, whilst maintaining core objectives. Investment in new opportunities (China JV and Orthomimetics) continues to build a pipeline of strategic relationships that should drive long term growth, whilst delivering short term financial objectives.

Financial summary and valuation

Year end Mch (£000)	2014	2015	2016	2017E	2018E	2019E
Sales	24	973	3,130	4,107	5,144	6,651
Underlying EBITDA	-364	-726	-489	-639	-19	662
Underlying EBIT	-381	-793	-721	-1,085	-546	115
Underlying PBT	-381	-920	-983	-1,210	-775	-108
Statutory PBT	-480	-1,102	-867	-1,260	-825	-158
Underlying EPS (p)	-0.87	-0.98	-0.64	-0.79	-0.54	-0.19
Statutory EPS (p)	-1.10	-1.17	-0.57	-0.82	-0.57	-0.21
Net (debt)/cash	1,492	3,282	2,384	1,314	-432	-1,562
Capital increase	3,374	5,422	207	1,000	1,000	0
P/E (x)	-9.3	-8.3	-12.7	-10.3	-15.1	-43.5
EV/sales (x)	480.1	11.9	3.7	2.8	2.2	1.7
EV/EBITDA (x)	-31.7	-15.9	-23.6	-18.1	-591.9	17.4

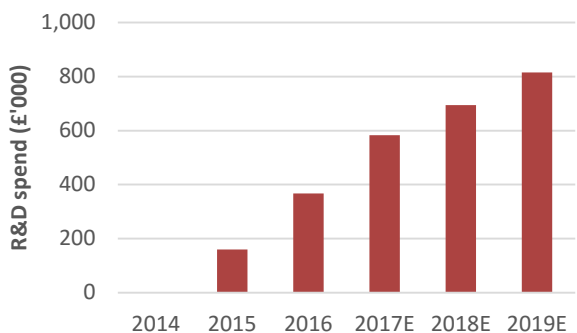
Source: Hardman & Co Life Sciences Research

Sales & Gross margin



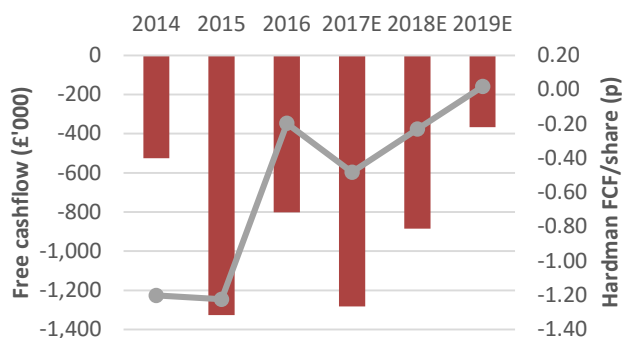
- ▶ Sales are expected to grow substantially as customers receive regulatory approvals
- ▶ Numerous new opportunities, but timing of their contribution is complex and, therefore, not included in our conservative forecasts
- ▶ The gross margin is dependent on the mix of business – contract manufacturing commands lower margins
- ▶ Gross margin is stable around 74-75% and is likely to go higher as COS moves up the value added chain

R&D spend



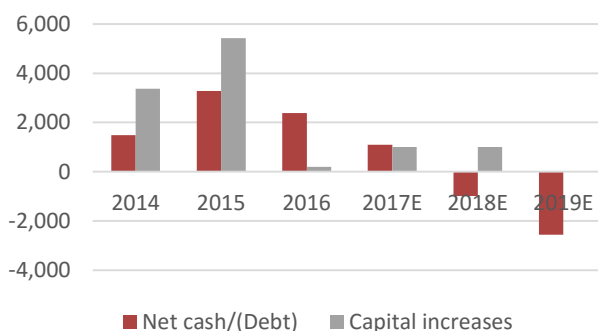
- ▶ COS currently invests about 12% of sales into R&D, but this is modest in absolute terms
- ▶ Investment in R&D spend will rise substantially in order to deliver the strategy of developing 'owned products'
- ▶ COS adds value through development of customer formulations
- ▶ Internal development is capable of supporting ongoing R&D

Free cashflow



- ▶ Accelerated spend on R&D, China JV and increasing the commercial team to drive medium to long term revenues affects short term cash flow
- ▶ Uncommitted cap-ex investment could be delayed to preserve cash
- ▶ Forecasts are conservative and any future change is more likely to be upwards with resulting improvement in cashflows
- ▶ Cash position is affected by deferred consideration in 2018 and 2019

Net cash



- ▶ Accelerated R&D and marketing spend is utilising cash that would otherwise be used for deferred considerations
- ▶ Deferred considerations – Southern Lights and CS (US) – will push net cash into a net debt position from 2018
- ▶ Capital increases in 2017 & 2018 currently reflect deferred consideration for acquisition in shares
- ▶ Decisions about the ChondroMimetic US trial programme will determine the timing/need for more cash

Source: Company data; Hardman & Co Life Sciences Research

2016 results

Full year results to 31st March 2016 demonstrated that clear progress has been made in the company's strategic objective to develop, manufacture and supply medical grade collagen biomaterials, tissues and devices for use in research, diagnostics, medical devices and regenerative medicine. The business model supports a strategy for growth that provides the prospect of maximal revenue growth and new product opportunities whilst continuing to minimise financial risk.

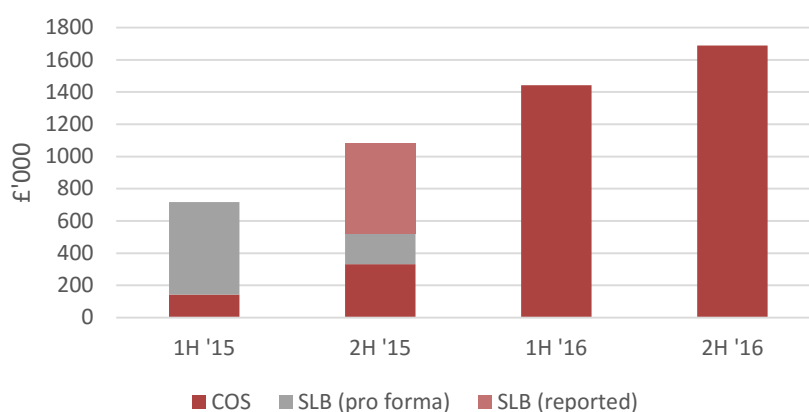
Headlines

- ▶ **Sales** – Underlying growth of +74% to £3.13m (£0.97m reported; £1.8m pro-forma) which was about £0.4m better than forecasts revised downwards in February due to year-end contract uncertainty
- ▶ **EBITDA** – Underlying loss, at -£0.49m (-£0.73m) was about £0.3m better than forecast, due to a better gross margin (74.1%) and lower SG&A costs
- ▶ **Net cash** – The period end net cash balance was about £0.6m better than forecast at £2.4m (£3.3m) due 50:50 to the better trading performance and an improvement in operational working capital
- ▶ **Global distribution** – Important channels established including a direct sales organisation targeting medical device companies as well as distribution through Sigma-Aldrich (Merck KGaA) and BBI Solutions to address the research markets.
- ▶ **China** – Joint venture established with Cre8ive to exploit sales and distribution opportunities in China
- ▶ **Management** – Change in the roles of senior management team in May 2016

Sales

2016 represents a year of significant change in the implementation of the group's corporate strategy. Reported sales grew 222%, driven by a full year contribution from the December 2014 acquisition of Southern Lights. However, looking at 2015 on a pro-forma basis, underlying organic growth in 2016 was estimated to be a very creditable +74%. Importantly, the company has established consistent and progressive sequential half year growth. For 2017 our forecasts are based on underlying sales growth of about +30%.

Pro-forma sales growth

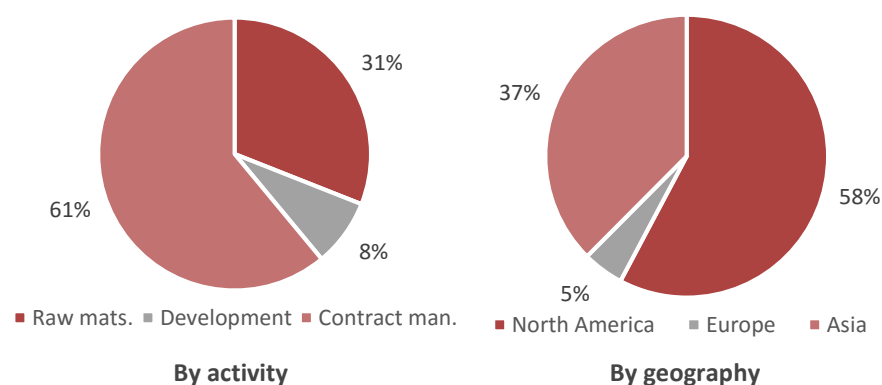


Source: Collagen Solutions; Hardman & Co Life Sciences Research

The split of sales by activity and geography are highlighted in the following charts. Contract manufacturing sales represents the largest segment accounting for 61% (56%) of the enlarged sales base, reflecting the growth in new customer wins over the past 12 months. It is important to note that all of Collagen's activities reported solid growth over the last year. The company generated 87% of sales from its top 10 customers in the year ending March 2016, compared to 85% in 2015.

Regarding geographical exposure, North America remains the largest marketplace accounting for 58% of the enlarged sales base, compared to 56% in fiscal 2015. Asia, with a full year's contribution from SLB's largest customer in Korea, now represents 37% of sales. Future marketing activity will continue to be focused on North America and Asia which offer significant growth opportunities. Europe remains an under-penetrated opportunity which will benefit also from re-establishment of the CE Mark for ChondroMimetic and the recent appointment of an EMEA commercial manager.

2016 Sales breakdown



Source: Collagen Solutions; Hardman & Co Life Sciences Research

Costs

COGS is highly dependent on the mix of business. Although the gross margin eased back from 78% due to sales of lower margin pericardium, it was still a creditable 74.1%. An improving product mix should see a positive trend in the gross margin.

During 2016, management has been investing in R&D +129% to -£0.37m; marketing +52% to £0.33m; and personnel (operational, support, scientific advisory board) +90% to -£2.1m. These costs are expected to rise further in 2017 as investment continues to be made – new CEO, global head of marketing and commercial team. R&D will also rise in order to bring Chondromimetic to market.

Pulling all this together, the overall underlying EBITDA loss in fiscal 2016 was -£0.49m (-£0.73m), the final position being considerably better than our latest forecast (-£0.76m, February 2016) following the announcement of some uncertainty regarding the sales projections toward the end of the financial year. The final outcome was much less severe than had been indicated as some of the new processes and procedures started to bear fruit.

Net cash

The Group ended the year with a net cash balance of £2.4m (cash £2.5m, less -£0.1m debt), down from £3.3m at 31st March 2015. COS invested £0.5m in capital expenditure, largely in Glasgow and New Zealand manufacturing facilities with the split approximately 50:50 between maintenance cap-ex and investment cap-ex. The company also invested about £200k in the purchase of an exclusive license for the IP, patents and assets from the founders of Orthomimetics Limited.

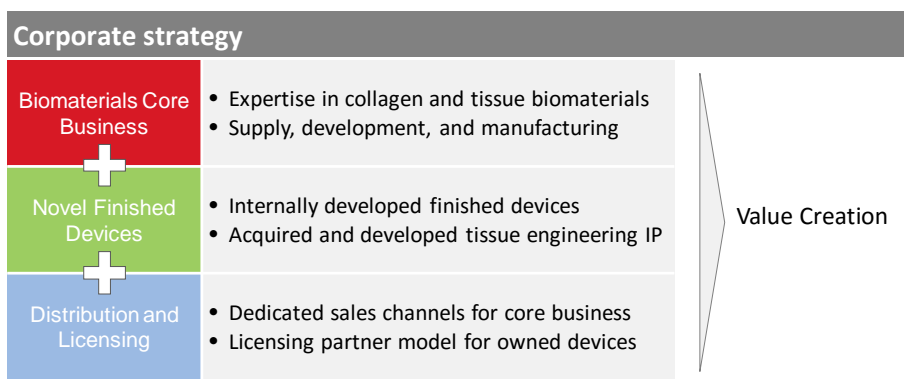
Outlook

Management

In May 2016, the Board announced a change in leadership of the group to accelerate its strategic plans and initiatives, taking advantage of the relative strengths of individuals already working in the organisation. Jamal Rushdy, with over 20 years' experience in medical devices, largely at Tornier NV (former NASDAQ quoted company acquired by Wright Medical), moved from Chief Business Officer to CEO. Stewart White moved from CEO to the role of Chief Scientific Officer, responsible for the group's R&D activities and corporate development. Tom Hyland, a highly experienced biomaterials operations executive, joined as COO. Further investment in key personnel are expected in 1H'17, notably in marketing and commercial.

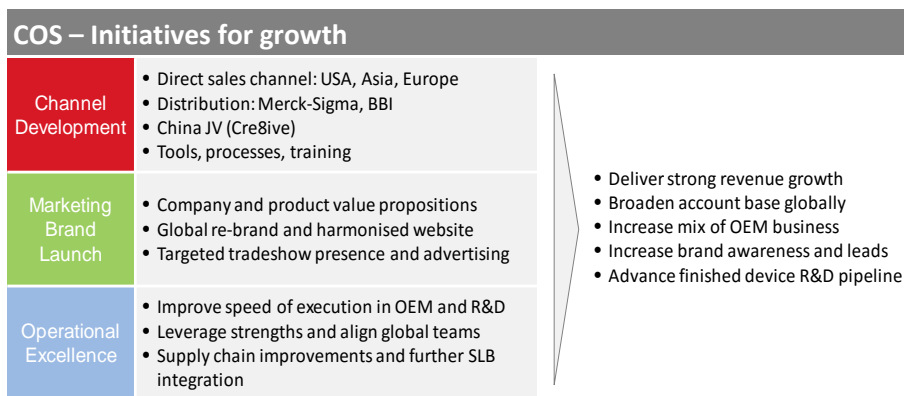
Strategy

Under the new leadership team, the company has re-focused group strategy in order to accelerate the growth opportunities which were clearly evident from the strong underlying sales growth of the enlarged entity apparent in the 2016 results and in the forecasts going forward.



Source: Collagen Solutions

In particular, management has established several initiatives in the current fiscal year which are focused on improving and accelerating core business performance. These initiatives are in the areas of sales channel development, marketing, and overall operational improvements, and are expected to drive benefits in terms of increased opportunity generation, a broader global account base, and ultimately strong and sustainable revenue growth.



Source: Collagen Solutions

Through these initiatives the company now has an integrated offering for its customers which can be identified clearly from the re-branding of the group via a harmonised and updated website.

Although customer acquisition can be a long process, the revenues tend to be "sticky" as the company's engineered products and processes are embedded into the customers' final commercial product, making it very difficult for them to switch to an alternative supplier that would also incur high costs.

While most of these near-term initiatives are focused, the company is also establishing the R&D pipeline of finished devices, such as the ChondroMimetic articular cartilage repair device, to add incremental value to the business as the company licenses this and associated tissue repair devices to distribution partners.

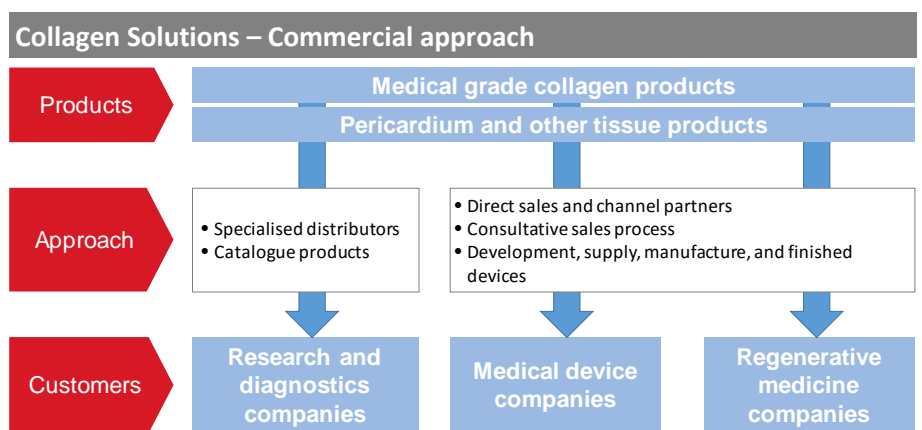
This strategy to move COS from a reliable supplier of medical grade collagen to a company that also has its own proprietary products for commercialisation will move it into profitability and cash generative at a faster pace, creating significant value for shareholders.

Operations

Management indicated in the preliminary statement it has a strong and growing customer base that requires even more advanced engineered collagen and that 70% of the Board's expectations for 2017 revenues have already been secured for the current year, which would equate to about £2.9m of our current sales forecast of £4.1m.

The executive team has been strengthened at the top level and there is likely to be further investment in key management positions for marketing and commercialisation in order to address the challenge of securing new customers requiring advanced collagen products, as well as up-selling volumes and cross-selling products to its existing customer base. Some of these activities are out of its hands, where customers are awaiting regulatory approvals for product, eg the brain/spine device of Desu Medical is awaiting CE Mark.

Establishment of a joint venture company in China with Cre8ive to exploit this large and growing market will aid the group's geographical reach plans. COS envisages distributing and selling a range of collagen products (liquid, powder, gel and pericardium) for both local use and for export.



Source: Collagen Solutions

Currency

At this stage of the financial year, all our forecasts are based on constant currency, effectively showing the underlying growth rate in both sales and costs. However, we are acutely aware of the recent weakness in sterling. The three most relevant currencies for the group are the USD, EUR and NZD. Sales are mostly affected by the first two, while COS has about 50% of its operational costs in New Zealand and the US.

As a guide, should the weakness in GBP remain at current levels for the remainder of fiscal 2017, sales would rise 12% to £4.6m and EBITDA would improve to lesser degree, from -£639k to -£572k, with c.50% of operational costs overseas.

Orthomimetics

In September 2015, through the acquisition of an exclusive license to the IP and assets of Orthomimetics Limited, COS satisfied one of its goals to own medical technologies that move the company up the value chain by offering proprietary end products. Exploitation of this technology platform could generate multiple product opportunities (cartilage, ligament, rotator cuff, meniscus and bone graft). The most advanced is ChondroMimetic, a collagen implant for the repair of small articular cartilage defects. Management is executing on its strategy for the necessary development work and pre-commercialisation activity.

ChondroMimetic – Moving to top end of value chain



Acquired assets of former Orthomimetics Ltd in Sept 2015

- Cartilage, bone, meniscus, tendon and ligament orthopaedic regenerative platform

ChondroMimetic is the primary opportunity

- Previously used in Europe, 6+ years evidence in patients
- Retro study and CE mark for OUS launch early 2017

Source: Collagen Solutions

The commercialisation strategy for ChondroMimetic is likely to be three-fold. First, to undertake all the necessary work to regain the CE Mark for European markets. Secondly, to prepare all the required paperwork to gain approval in non-EU markets that recognise the CE Mark. Thirdly, to perform appropriate trials for the approval of ChondroMimetic in the US. Enacting this third leg of the strategy will likely require additional investment and a strategic partner.

Deferred consideration

Over the next three years, COS will have to pay the earn-outs/deferred consideration related to its acquisitions of Collbio and Southern Lights. In fiscal 2017 and 2018, £2.0m is due to former shareholders of Collbio, in shares, which will be cash neutral. In 2018 and 2019, a total of £2.4m cash becomes payable to former shareholders in CS (US) and Southern Lights.

Management is fully aware that these cash payments together with the accelerated growth strategy through investment in R&D and marketing will put some strain on the balance sheet. It has indicated that it is already looking at some form of debt financing to support the balance sheet through this investment period. Consequently, we have included £2.5m in our estimates.

Deferred consideration				
Business	£000	2017E	2018E	2019E
CS US	Cash	-	-£200	-£209
Collbio	Shares	-£1,000	-£1,000	-
Southern Lights	Cash	-	-£1,000	-£1,000
Total deferred		-£1,000	-£2,200	-£1,209
Cash impact		-	-£1,200	-£1,209

Source: Hardman & Co Life Sciences Research

Changes to forecasts

Most of the changes to forecasts are a knock-on effect caused by the 2016 results coming in better than expected. Sales are still forecast to grow just over +30%, but this is coming from a higher starting point.

The main differences are in the cost lines. In 2016, the split between administration expenses and marketing costs was considerably different to forecasts, with greater spend on admin compensated by lower marketing costs. Given the increase in senior personnel, we believe that this will be repeated in 2017 and 2018. R&D spend will depend on decisions regarding the required investment to get ChondroMimetic back on to the market and advancing other premier products through the R&D pipeline.

These changes all flow through the P&L and cashflow statement such that net cash at the end of 2017 is expected to be much better, at £1.3m, than in previous forecasts (£0.25m).

It should be noted that, at this early stage of the year, these changes are all based on constant currency. Attention is drawn to the comment made previously about the potential effect of currency should sterling remain at current levels.

Changes to forecasts				
Year end March (£000)	Old		New	
	2017E	2018E	2017E	2018E
Sales	3,982	5,034	4,107	5,144
Cost of goods	-916	-1,107	-1,048	-1,287
Gross profit	3,066	3,926	3,059	3,857
Gross margin	77.0%	78.0%	74.5%	75.0%
Administrative expenses	-2,031	-2,014	-2,218	-2,315
Selling & marketing costs	-1,195	-1,309	-739	-772
R&D	-665	-830	-741	-790
Underlying EBITDA	-784	-226	-639	-19
Net cash/(debt)	253	-772	1,314	-432

Source: Hardman & Co Life Sciences Research

Competition & valuation

Collagen Solutions is in an elite group of companies that have the ability to supply medical grade collagen on a global scale. In our opinion, there are five key players in the market. DSM (Kensey Nash), Integra LifeSciences and Collagen Matrix serve the medical device, regenerative medicine and *in vitro* diagnostics markets; whilst Koken and Advanced Biomatrix serve the research markets. In addition, there are a number of other companies highlighted in the table below which can supply collagen to end-users and/or are capable of developing their own products.

Suppliers of Medical Grade collagen	
Company	Comment
Integrated – Collagen supplies & products	
DSM (Kensey Nash)	Medical devices, regenerative medicine, <i>in vitro</i> diagnostics
Collagen Matrix	Medical devices, regenerative medicine, <i>in vitro</i> diagnostics
Encoll Corporation	Medical devices, cosmetics, research
Integra LifeSciences	Medical, devices, regenerative medicine, <i>in vitro</i> diagnostics
Innocoll	Medical devices, supply
Symatase	Medical devices, regenerative medicine
CollPlant	Medical devices, supply (plant based collagen)
Holista CollTech	Cosmetic applications, medical devices (bovine collagen)
Collagen supplies – Research reagents: cell culture, gels, coatings; aesthetics	
Koken	Research applications – cell culture, gels, coatings
Advanced Biomatrix	Research applications – cell culture, gels, coatings
TAP Biosystems	Research applications – cell culture, gels, coatings
NuCollagen	Medical devices, <i>in vitro</i> diagnostics, regenerative medicine

Source: Hardman & Co Life Sciences Research

Valuation

One of the problems in attempting to value COS is that there are few direct comparator companies that are quoted. However, Innocoll recently (22nd June 2016) raised gross new capital of \$40m and carries a market capitalisation of \$181m despite having sales below those of COS. It is undertaking phase III trials of proprietary products which highlights the potential for Collagen Solutions as it, too, moves up the value chain with 'owned' products.

Comparative valuation				
Company	Collagen Solutions	CollPlant	Holista Colltech	Innocoll
Ticker	COS.L	CLPT.TA	HCT.AX	INN.LOQ
Curr.	GBP (p)	NIS	AUD	USD
Share price	8.1	30.9	0.18	6.02
Shares (m)	171.4	317.5	169.6	30.1
Market cap (lc. m)	13.9	98.1	30.5	181.2
Net cash/(debt) (m)	2.4	7.7	0.7	79.2
EV (lc. m)	11.5	90.4	29.8	102.0
Sales (2015/16)	3.13	0.0	6.78	2.60
Market cap (£m)	13.9	19.3	17.8	139.9
EV (£m)	11.5	17.8	17.4	78.8
EV/Sales (x)	3.7	n/a	4.4	39.2
Relative to COS	-	-	1.2	10.6

Prices taken at close of business on 13th July 2016

Source: Hardman & Co Life Sciences Research

Relevant identified M&A activity

Company	Technology	Acquiror	Year	Value	EV/sales	EV/EBITDA
Kensey Nash	Collagen supply and products	DSM	2012	\$360m	4x	10x
Radius Medical LLC	Alginate dermal filler	Merz GmbH	2010	\$253m	3.2x	-19x
Radius Medical LLC	Demineralised bone matrix/collagen	Medtronic Inc	2010	\$123m	1.3x	n/a
Radius Medical LLC	Collagen bone filler scaffold	NuVasive Inc	2007	\$18m	6x	n/a

Source: Hardman & Co Life Sciences Research

Also, there are a few examples of published M&A activity within this space. The most relevant was the acquisition of Kensey Nash in 2012 by DSM which paid \$360m for a business with c.\$90m of sales (inclusive of c.\$30m of royalties).

Financial summary

Profit & Loss

- ▶ **Forecast sales** – Underlying growth in the range 25-30% for forecast period
- ▶ **Gross margin** – Stable and dependent on product mix, could rise over time as a more engineered products are sold and ‘owned products’ are launched
- ▶ **Personnel** – Further investment in commercial personnel and some China JV costs will see continuing increases in administration and marketing costs
- ▶ **ChondroMimetic** – Until the global development plan for ChondroMimetic is finalised, our forecasts do not reflect the opportunity that this product provides. Greater investment in R&D will be needed for this cartilage repair product to obtain regulatory approval in the US
- ▶ **Shares** – The increased number of shares in 2017 and 2018 reflects the deferred consideration for Collbio, payable in shares

Profit & Loss						
Year end March (£000)	2014	2015	2016	2017E	2018E	2019E
Sales	24	973	3,130	4,107	5,144	6,651
Cost of goods sold	-12	-214	-811	-1,048	-1,287	-1,598
Gross profit	12	759	2,319	3,059	3,857	5,053
Gross margin	49.7%	78.0%	74.1%	74.5%	75.0%	76.0%
Admin expenses	-304	-1,106	-2,107	-2,218	-2,315	-2,660
Selling & marketing	-72	-219	-333	-739	-772	-898
R&D	0	-160	-367	-741	-790	-833
Underlying EBITDA	-364	-726	-489	-639	-19	662
Depreciation	-13	-75	-175	-255	-315	-315
Amortisation	-4	-55	-172	-192	-212	-232
Other income	0	63	114	0	0	0
Underlying EBIT	-381	-793	-721	-1,085	-546	115
Share based costs	-25	-27	-36	-50	-50	-50
Exceptional items	-75	-155	152	0	0	0
Statutory EBIT	-480	-975	-605	-1,135	-596	65
Net financial income	0	-128	-262	-124	-229	-223
Underlying pre-tax	-381	-920	-983	-1,210	-775	-108
Exceptional items	0	0	0	0	0	0
Reported pre-tax	-480	-1,102	-867	-1,260	-825	-158
Taxation	0	-21	-114	-148	-193	-241
Underlying net income	-381	-942	-1,097	-1,358	-968	-349
Statutory net income	-480	-1,123	-981	-1,408	-1,018	-399
Period-end shares (m)	63.8	171.0	171.4	179.4	187.4	187.4
Weighted average (m)	43.7	96.4	171.2	172.1	180.1	187.4
Fully diluted shares (m)	47.7	102.3	180.4	181.3	189.3	196.6
Underlying Basic EPS (p)	-0.87	-0.98	-0.64	-0.79	-0.54	-0.19
Statutory basic EPS (p)	-1.10	-1.17	-0.57	-0.82	-0.57	-0.21
U/lying fully-dil. EPS (p)	-0.87	-0.98	-0.64	-0.79	-0.54	-0.19
Stat. fully-diluted EPS (p)	-1.10	-1.17	-0.57	-0.82	-0.57	-0.21
DPS (p)	0.00	0.00	0.00	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

Balance sheet

- ▶ The balance sheet continues to reflect that the company is investing in order to grow the business and take advantage of opportunities
- ▶ Change in the net cash position of the group shows the impact of the £2.4m deferred cash payments to former Collbio/CS (US) and Southern Lights shareholders as part of the acquisition agreements
- ▶ Management indicated that it is investigating the possible use of debt financing to fund, in part, these payments and also the investment in R&D and marketing given that certain parts of the business are trading profitably and generating cash
- ▶ R&D investment is written-off in the year in which it is incurred, there is no capitalised R&D on the balance sheet
- ▶ Trade creditors was boosted at the end of fiscal 2016 by the receipt of £250k Horizon 2020 grant funding
- ▶ Forecasts assume that COS agrees £2.5m of debt financing sometime during the course of the year

Balance sheet						
@31st March (£000)	2014	2015	2016	2017E	2018E	2019E
Shareholders' funds	6,256	12,853	13,896	12,488	11,470	11,071
Cumulated goodwill	0	0	0	0	0	0
Total equity	6,256	12,853	13,896	12,488	11,470	11,071
Share capital	683	1,755	1,759	1,759	1,839	1,919
Reserves	5,573	11,099	12,137	10,729	9,631	9,152
Deferred tax	0	285	253	233	213	193
Long-term loans	0	88	63	2,563	2,563	2,563
Bank overdrafts	0	22	46	46	46	46
less: Cash	1,492	3,391	2,493	3,923	2,178	1,047
less: Marketable secs.	0	0	0	0	0	0
less: Long-term invests.	0	0	0	0	0	0
Invested capital	7,174	14,176	14,203	13,845	13,352	12,854
Fixed assets	232	794	1,161	1,059	913	798
Intangible assets	6,894	12,919	12,971	12,780	12,568	12,336
Inventories	39	219	264	347	434	561
Trade debtors	0	419	429	563	705	911
Other debtors	167	226	207	207	207	207
Trade creditors	0	-215	-694	-735	-750	-930
Tax liability	0	-40	0	-114	-148	-193
Other creditors	-160	-144	-135	-261	-577	-837
Debtors less creditors	7	245	-193	-341	-563	-842
Invested capital	7,174	14,176	14,203	13,845	13,352	12,854
Net cash/(debt)	1,492	3,282	2,384	1,314	-432	-1,562
NAV/share (p)	14	13	8	106	111	114
Stock days	-	220	109	44	45	44
Debtor days	-	79	49	249	211	192
Creditor days	-	183	205	106	111	114

Source: Hardman & Co Life Sciences Research

Cashflow

- ▶ COS is expected to approach EBITDA breakeven in fiscal 2018 which shows through in the cash being generated from operations
- ▶ A modest amount of tax is generally payable each year as the company makes a small profit in certain jurisdictions within its global operations
- ▶ Maintenance cap-ex is approximately £0.15m per annum. Higher levels of expenditure have been incurred for investment in manufacturing facilities. Some cap-ex will be needed when the ChondroMimetic marketing and development plans are finalised
- ▶ The Collbio deferred consideration (two tranches of shares) is cash neutral in fiscal 2017. However, the deferred cash payments for CS (US) (ca £410k spread over two years) and Southern Lights (ca. £1m per annum) will impact cashflows in 2018 and 2019

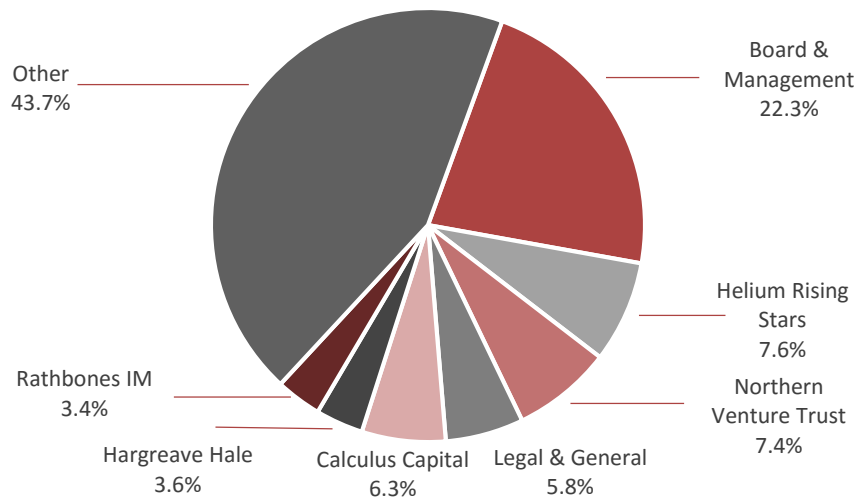
Cashflow						
Year end March (£000)	2014	2015	2016	2017E	2018E	2019E
Operating profit	-381	-793	-721	-1,085	-546	115
Depreciation	13	75	175	255	315	315
Amortisation	4	55	172	192	212	232
Inventories	-13	-123	-48	-82	-87	-127
Working capital	-72	-105	469	-93	-128	-26
Exceptionals/provisions	-75	-155	152	0	0	0
Other (Fx)	-1	-106	-346	0	0	0
Net cash used in ops.	-525	-1,152	-147	-814	-235	509
Net interest	0	-2	2	12	7	-37
Tax	0	-26	-194	-114	-148	-193
Operational cashflow	-525	-1,180	-338	-916	-377	278
Capital expenditure	0	-159	-464	-153	-169	-200
Sale of fixed assets	0	13	1	0	0	0
Free cashflow	-525	-1,326	-802	-1,070	-546	78
Dividends	0	0	0	0	0	0
Acquisitions	-1,357	-2,192	-207	-1,000	-2,200	-1,209
Other investments	0	-127	-93	0	0	0
Cashflow after invests.	-1,882	-3,645	-1,101	-2,070	-2,746	-1,131
Share issues	3,374	5,422	207	1,000	1,000	0
Currency effect	0	12	-18	0	0	0
Change in net debt	1,492	1,790	-898	-1,070	-1,746	-1,131
Hardman FCF/share (p)	-1.20	-1.22	-0.20	-0.53	-0.21	0.15
Opening net cash	0	1,492	3,282	2,384	1,314	-432
Closing net cash	1,492	3,282	2,384	1,314	-432	-1,562

Source: Hardman & Co Life Sciences Research

Shareholder information

At the point of going to press, Collagen Solutions had 171,403,815 Ordinary shares of 1p nominal value in issue. The Board of Directors holds 16.3% with a further 6% held by senior managers/former owners of acquired businesses.

Key shareholders – 12th July 2016



Source: Company reports; RNS announcements

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Share price performance



Source: Thomson Reuters Eikon

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