

ReNeuron Group

Consolidation confusion?

ReNeuron's recent 100 for 1 share consolidation was a benign and cosmetic 'tidy up' of its historical capital structure. The share price of ReNeuron is trading at 52-week lows and the recent consolidation may have been an unrelated or an unintended cause for concern for some investors. ReNeuron's valuation is now below its c £40m cash position. In this update, we offer some possible thoughts on this overreaction and, in the absence of operational newsflow, our forecasts and valuation are largely unchanged.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	0.0	(12.8)	(43.51)	0.0	N/A	N/A
03/17	0.0	(10.2)	(23.93)	0.0	N/A	N/A
03/18e	0.0	(14.2)	(42.20)	0.0	N/A	N/A
03/19e	0.0	(15.4)	(45.82)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Share consolidation just cosmetic

ReNeuron completed a 1 for 100 share consolidation, which was supported and requested by some institutional holders in order to improve marketability, just before a period of intense stock market volatility. It is not possible to know investors' reasons for selling but some may have mistakenly taken the share price rise as an opportunity to 'take profits'. ReNeuron's stock price is now not just trading at 52-week lows, but also below its cash balance. Our valuation of ReNeuron has hardly changed as a result of the share consolidation.

A flight away from risky assets?

A share consolidation is in and of itself not an obvious signal to sell the stock, since the company's market capitalisation does not change. In the period of market volatility from late January, investors may have sold risky and even risk-free assets in a flight away from risk. To the inexperienced investor, a share consolidation gives the illusion of a higher share price that might have resulted in an investment decision. Investors may also have been worried that the first patient dosed in the late-stage US clinical trial in chronic stroke has not yet been announced. We expect the announcement that the first US chronic stroke patient has been dosed in H118. Loss-making companies can be valued below cash if some of that cash has to be spent to generate a technology value. In ReNeuron's case any technology value it has generated to date is being discounted. ReNeuron's lead product is about to start the first of two studies required for FDA approval, and positive long-term Phase II data was recently announced at the American Heart Association meeting.

Valuation: Slightly higher after the consolidation

We have updated our model for the share consolidation (which did not change our operating assumptions) and for our estimates of the FY17 year-end cash position, and have rolled our DCF forward by one quarter. Despite the share consolidation and market volatility, our valuation of £290m (previously £286m) remains largely unchanged.

Update on share consolidation

Pharma & biotech

14 February 2018

Price 103.5p
Market cap £33m

Net cash (£m)	47.4
Shares in issue	31.6m
Free float	31.6%
Code	RENE
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(40.0)	(50.7)	(57.3)
Rel (local)	(35.0)	(49.1)	(57.1)
52-week high/low	262.50p	102.00p	

Business description

ReNeuron is a UK biotech company developing allogeneic cell therapies. CTX neural stem cells are in development for ischaemic stroke disability (Phase III planned) and human retinal progenitor cells (hRPCs) are being studied for retinitis pigmentosa (Phase I/II).

Next events

Initiation of the first US late-stage controlled stroke study	Q118
Phase I/II readout for hRPC in RP	Q218
Start Phase IIb hRPC in RP	Q218

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Exhibit 1: Financial summary

	£000s	2016	2017	2018e	2019e	2020e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		29	46	46	46	46
Cost of Sales		0	0	0	0	0
Gross Profit		29	46	46	46	46
R&D expenses		(10,272)	(8,648)	(11,220)	(11,782)	(12,960)
SG&A expenses		(4,015)	(4,139)	(4,346)	(4,781)	(5,259)
EBITDA		(13,632)	(11,717)	(14,522)	(15,014)	(16,162)
Operating Profit (before amort. and except.)		(13,724)	(11,887)	(14,666)	(15,662)	(17,318)
Intangible Amortisation		0	0	0	0	0
Exceptionals		0	0	0	0	0
Operating Profit		(13,724)	(11,887)	(14,666)	(15,662)	(17,318)
Other		0	0	0	0	0
Net Interest		878	1,722	458	237	207
Profit Before Tax (norm)		(12,846)	(10,165)	(14,208)	(15,425)	(17,112)
Profit Before Tax (FRS 3)		(12,846)	(10,165)	(14,208)	(15,425)	(17,112)
Tax		1,492	2,592	853	925	2,053
Profit After Tax (norm)		(11,354)	(7,573)	(13,356)	(14,499)	(15,058)
Profit After Tax (FRS 3)		(11,354)	(7,573)	(13,356)	(14,499)	(15,058)
Average Number of Shares Outstanding (m)		2,609.3	3,164.6	31.6	31.6	31.6
EPS - normalised (p)		(43.51)	(23.93)	(42.20)	(45.82)	(47.58)
EPS - FRS 3 (p)		(43.51)	(23.93)	(42.20)	(45.82)	(47.58)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
BALANCE SHEET						
Fixed Assets		6,963	724	3,239	5,783	8,457
Intangible Assets		1,591	0	0	0	0
Tangible Assets		361	724	3,239	5,783	8,457
Other		5,011	0	0	0	0
Current Assets		64,894	65,888	49,110	43,067	26,587
Stocks		0	0	0	0	0
Debtors		1,421	812	812	812	812
Cash		60,709	61,061	47,446	41,329	23,722
Other		2,764	4,015	853	925	2,053
Current Liabilities		(4,199)	(5,702)	(3,702)	(13,702)	(13,702)
Creditors		(3,700)	(5,701)	(3,701)	(3,701)	(3,701)
Short term borrowings		0	0	0	(10,000)	(10,000)
Short term leases		(1)	(1)	(1)	(1)	(1)
Other		(498)	0	0	0	0
Long Term Liabilities		0	(1)	(1)	(1)	(1)
Long term borrowings		0	0	0	0	0
Long term leases		0	(1)	(1)	(1)	(1)
Other long term liabilities		0	0	0	0	0
Net Assets		67,658	60,909	48,646	35,147	21,342
CASH FLOW						
Operating Cash Flow		(11,920)	(5,976)	(15,428)	(13,899)	(15,024)
Net Interest		0	0	0	0	0
Tax		0	1,340	4,015	853	925
Capex		(293)	(532)	(2,660)	(3,192)	(3,830)
Acquisitions/disposals		0	0	0	0	0
Financing		65,195	0	0	0	0
Dividends		0	0	0	0	0
Other		345	520	458	122	207
Net Cash Flow		53,327	(4,648)	(13,615)	(16,116)	(17,722)
Opening net debt/(cash)		(12,380)	(65,708)	(61,059)	(47,444)	(31,327)
HP finance leases initiated		1	(1)	0	0	0
Other		(0)	0	(0)	(0)	0
Closing net debt/(cash)		(65,708)	(61,059)	(47,444)	(31,327)	(13,605)

Source: ReNeuron accounts, Edison Investment Research

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