THE UK SHAREHOLDERS' ASSOCIATION INVESTIGATES AIM COMPANIES' ANNUAL REPORTS

Tissue Regenix Group plc (TRX) – Number 99 in Investors Chronicle 'AIM 100' April 2015

Annual Report & Accounts for year ended 31 January 2015

INTRODUCTION

We are in blue-sky country here, a bio-tech/medical device company with a current market cap of £120m and negligible sales. The figures are thus of little help to potential investors except to check the amount of cash in the bank, make an estimate of the rate of cash burn and then review the cash raising options. Having established that, we must rely on the text to assess whether Tissue Regenix (TRX) has the products and marketing strategy to prosper.

PRESENTATION OF TEXT & FIGURES

With a commendable total of 52 pages, the presentation is clear, concise and generally provides the information needed to assess the business. There are two criticisms. First, there is no separate Financial Report and the perfunctory Strategic Report includes a Risk Assessment which does not mention future funding requirements but otherwise appears to be adequate. Second, there is an attempt to give emphasis to certain sections by using white lettering on a blue background, but this is difficult to read on a screen and almost impossible if printed at home.

WHAT DOES TRX DO?

TRX was established about 10 years ago to use patented biotech procedures ("dCELL" technology) to remove the cellular material and DNA from animal or human tissue. The treated inert tissue, classified as a medical device, is used to supplement or replace human tissue with a small risk of rejection; the recipient's body repopulates the tissue with its own cells. The tissue is simple to store and has a good shelf life. The first application, which is being launched in the States, is a dermal patch ("DermaPure") to assist in wound healing. Next along come knee meniscus and anterior cruciate ligament repairs, followed by replacement heart valves and patches for peripheral vascular reconstruction.

WHAT IS THE MARKETING STRATEGY?

The simple answer is, High Risk, High Reward. TRX is funded by shareholders and has not teamed up with any outsider to help fund its research or its sales and marketing. The dermal patch is initially being aimed at the States and the company is recruiting its own sales force which, in turn, will appoint regional dealers and educate doctors. The report makes no attempt to forecast when cash will run out and what will happen when it does.

WHAT ABOUT THE ACCOUNTS?

It helps that TRX is focussed on a small product range so that the text is straightforward. Specific items to note in the document are,

- Directors. Three exec, three non-exec, all male, the sole female having left recently. Total emoluments were £730k (execs £660k), including share based payment charges, which seems top heavy for this stage of the company's development.

- Shareholders. Institutions hold about 75% (e.g.Woodford 14.5%, Leeds Univ 4.5%) and the directors plus employee benefit trust over 10% including options. Options are highish but are probably appropriate for the company and sector. There could be more clarity over how the shareholdings are presented.

- P & L/Cash Flow. Income negligible, expenses £8.5m, loss after tax credit £7.6m. Expenses will obviously be higher in the future because of the efforts in the US.

- Balance Sheet. There is a deficit on Retained Earnings of £27.4m which is approximately what the company has spent to date. A positive factor is that TRX does not capitalise any R & D nor is there any Goodwill. It should be noted that, shortly after the balance sheet date, £19m net was raised by a placing at 19p/share so that, at 31.07.15 there was £24.9m in the bank and about £20m of tax losses carried forward.

AND THE FUTURE?

Independent forecasts are for a loss of £12m in the latest year to 31.01.16 and £16m the year after. If the company is to survive it will soon need more cash and there are three possibilities – another placing, the sale of DermaPure or its marketing rights and the outright sale of the company. The clear message from the successful placing and the directors' own statements is that another placing is the last choice. *Faites vos jeux*. If the company can do a deal, then a re-rating might be possible. If not…??

HPB January 2016