

#### Stock Data

Share Price: 1.97p  
Market Cap: 19.1m  
Shares in issue: 977.2m

#### Company Profile

Sector: Healthcare  
Ticker: SKIN  
Exchange: AIM

#### Activities

Vertically integrated test services company focused on developing and commercialising technology and products that scientifically prove the impact of skin care product claims for healthcare, life sciences, clinical research, pharmaceutical and cosmetics industries.

#### Share price performance chart



Source: LSE

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## Integumen plc

As a function of the restructuring of the company since the end of 2018, Integumen has delivered a nine fold increase in revenue in H1 2019. The company has also transformed the balance sheet with the disposal of underperforming subsidiaries, the removal of outstanding debt and the acquisition of RinoCloud to augment Integumen's Labskin business. With a successful fundraising of £2.75m also completed in April 2019 providing significant working capital, we believe that Integumen is very well placed for continued sales growth in H2 2019.

Revenue in H1 2019 was £477,000 from continued operations, a significant uplift on like-for-like sales of £54,000 over the same period in 2018. The 2019 numbers include only two months sales from the RinoCloud acquisition which was concluded on 2 May 2019. However, the inclusion of RinoCloud sales from January 2019 would have boosted group sales by a further £178,000.

This revenue growth reflects positively the impact of the restructuring of the group in H2 2018 and early 2019 which has delivered accelerated growth in product sales and service contract test services at Labskin in H1 2019. This is exemplified by the typical order price range of Labskin services of £35,000-£210,000 in H1 2019 compared to only £1,500-£12,000 in H1 2018 when the group was more focused on sales of consumable products rather than integrated services.

Since December 2018, Integumen has streamlined its portfolio with the disposal of underperforming businesses, TSPRO GmbH and Visible Youth Limited, thereby removing significant liabilities and future obligations from the company. Outstanding debt totalling £0.82m due to Cellulac and Venn Life Sciences has also been eliminated and gross proceeds of £2.75m (including vendor shares) in an oversubscribed placing completed in April 2019 have provided significant ongoing working capital.

Integumen's core business; Labskin is a laboratory-grown full thickness human skin equivalent testing platform. It is used in a wide range of fields for specialist studies focused on the human skin microbiome. As such Labskin has a wide variety of applications in the healthcare, life sciences, clinical research, pharmaceutical and cosmetics industries, among others, for the testing of products and products' claims.

Until mid-2018, Labskin was sold only as a relatively low cost consumable physical product. However, the company notes that the core growth potential of Labskin is derived from the services provided as part of the Labskin AI platform, an Artificial Intelligent eco-system that features a cloud-based virtual microbiology department delivering an end-to-end skin care product validation service.

Labskin AI has been augmented by the acquisition of RinoCloud Limited completed in May 2019 for an all share consideration of £3.0m. RinoCloud provides an end-to-end science data management service which has already begun to facilitate the efficient automation and scale-up of Labskin AI over the medium term.

We expect Integumen's interim report for the first six months of 2019 to demonstrate significant like-for-like sales growth and a considerably stronger balance sheet. We are also confident that the operational progress outlined in H1 2019 will continue in Q3 driven by the integration of RinoCloud and an increasing uptake of Labskin's suite of services by major customers.

## Financial highlights in FY 2018

Since our comprehensive update on the company published on 29 April 2019, Integumen reported its final results for the year ended December 2019. Total revenue was £501,000 in 2018 compared to £238,000 in 2017 with the inclusion of discontinued operations. However, in a more accurate representation of the company, revenue of £274,000 from continuing operations was up sharply from £93,000 in 2017 as Labskin test kit sales moved to full skincare product test services.

The company reduced its underlying EBITDA loss from £1.4m in 2017 to £1.2m in 2018 and reported a headline loss before tax of £2.1m in 2018 to reflect the inclusion of several non-cash items including an impairment charge of £423,000 and exceptional costs of £244,000 (relating to one-off transaction costs) in addition to modest depreciation and amortisation charges.

We note that Integumen's STOER For Men skincare range also attained a monthly break even position by year end 2018.

### Financial summary, 2018-19

Year ended Dec	FY 2017 £'000	FY 2018 £'000
Revenue from continuing operations	93	274
Underlying EBITDA	-1,398	-1,221
Headline profit before tax	-5,397	-2,120
Profit after tax	-5,453	-2,702
Cash at bank	40	26
Bank debt and finance leases	698	519

Source: Company

### Balance sheet

The 2018 balance sheet is no longer a particularly accurate reflection of the company as it stands currently. Since the year end, the company raised gross proceeds of £2.75m including vendor shares, to provide significant new working capital for the company. Cash has also been augmented by the recent exercise of warrants over the course of June 2019 which we estimate has contributed a further £287,000 to group coffers.

The management also conducted a range of strategic moves post year-end to reduce current and future liabilities for the group. These included the disposal of the Visible Youth Group saving £245,000 of future contractual liabilities, two debt conversions amounting to over £821,000 and the settlement of litigation issues saving a further £250,000 of future liabilities.

The disposal of TSPRO GmbH which was completed in the financial year 2018 also saved £1.19m in short and long term liabilities. Consequently, we expect Integumen to demonstrate a significantly strengthened balance sheet for the period ended 30 June 2019.

## Progress in H1 2019

The results of major restructuring in H2 2018 and the early part of 2019 have delivered accelerated growth in product sales and service contract test services at Labskin in the first six months of 2019 and the company expects this momentum to continue in H2 2019.

Unaudited revenue in H1 2019 was £477,000 compared to £54,000 in H1 2018, an almost nine fold increase since the company was reorganised. However, some £178,000 of revenue from RinoCloud generated in Q1 2019 is excluded from the headline sales figures given that the acquisition was concluded on 2 May 2019. As such, less than two months of digital revenue can be reported in the H1 accounts.

### **RinoCloud contribution**

With RinoCloud consolidated into the accounts for H2 2019, we infer that Integumen will demonstrate a further significant advancement in revenue over the second half of the year with a full six months contribution from RinoCloud driving sales growth.

In particular, RinoCloud is enabling the scale-up of the business as it moves from a physical laboratory to an automated, real-time, digital data platform complementing real-world test environments with physical laboratory grown human skin. Integumen expects full digitisation of its services to be complete in H2 2019.

### **Increased order value**

The implemented changes to Integumen's strategy led to an improvement in quality of sales, clients and services provided in H1 and the company added another two agreements with two blue chip household names to the previously announced three full skincare product test service contracts. The company also notes that the composition of group revenue has also changed with the typical order value in H1 2019 ranging between £35,000 and £210,000 compared to a considerably lower range of £1,500 to £12,000 in H1 2018 when Integumen was more focused on sales of consumables rather than a fully integrated service offering.

The positive results of major restructuring in H2 2018 has delivered accelerated growth in product sales and service contract services across the Group into H1 2019 with the pace of growth expected to continue in H2.

### **Further expansion**

Integumen has increased its laboratory space by 50% in order to support the continued pace of growth that the company has experienced over recent months. The company has also made two senior management appointments which are Mr Paul Ryan appointed as Head of Enterprise sales to increase major client contracts and Mr Colin O'Sullivan as Chief Information Officer to ramp up the IT infrastructure to accommodate the Labskin AI eco-system growth across the US, EU and Asia.

## Recent operational highlights

### Disposal of TSPRO GmbH

Following a comprehensive strategic review of the business Integumen commenced a streamlining of its activities in 2018. The company announced the disposal of the wholly owned subsidiary TSPRO GmbH in December 2018 which removed £1.19m of short and long-term liabilities from the group. The subsidiary was sold to MediNova AG for a consideration of €1.00 on 21 December 2018 and MediNova accepted full responsibility for all obligations after the completion date.

### Disposal of Visible Youth Limited

Visible Youth Limited was a wholly owned non-trading company which is the parent company for Visible Youth Ireland and Integumen Inc. It was reported in the 2018 interim results for Integumen plc that Visible Youth's sales and marketing efforts had failed to meet expectations and the decision was made to divest the business.

Following a legal settlement with Mr Donald Nicholson and his management company Mercuriali, a consultant to Visible Youth, Integumen disposed of Visible Youth to Enhance, the original vendor of the business to Integumen, in April 2019 for £1.00. This agreement discharged Integumen's obligations and liabilities associated with Visible Youth Limited going forward.

### Debt conversions

As noted previously, in April 2019, Integumen converted the Cellulac loan note into almost 26.7m new shares removing a significant liability of approximately £400,000 from the group's balance sheet. At the same time, the company has also converted a £421,000 loan to Venn into approximately 30.1 million new shares. This liability was assumed by the company when it acquired Innovenn (UK) Limited from Venn Life Sciences. Both of these liabilities, amounting to a potential £821,000, have now been eliminated from Integumen's balance sheet.

## Acquisition of RinoCloud

On 12 April 2019, Integumen acquired RinoCloud Limited for £3.0m satisfied by the issue of 214.3 million Integumen shares at 1.4p per share. RinoCloud is an integrated intelligent data service company focused on improving management of science data projects. RinoCloud also provides technology services to curate data from its generation, through to presentation to support papers, patents and prototypes.

The acquisition of RinoCloud provides an end-to-end science-data management service which enables the automation and efficient scale up of Labskin AI. This is expected to apply across the whole business unit from the laboratory workbench to extracting value from team collaboration and analysis, through to delivering verified results to support client product development and marketing claims.

For further information on RinoCloud and also Integumen's core Labskin and Labskin AI businesses, we direct investors to our comprehensive research report on Integumen, dated 29 April 2019.

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