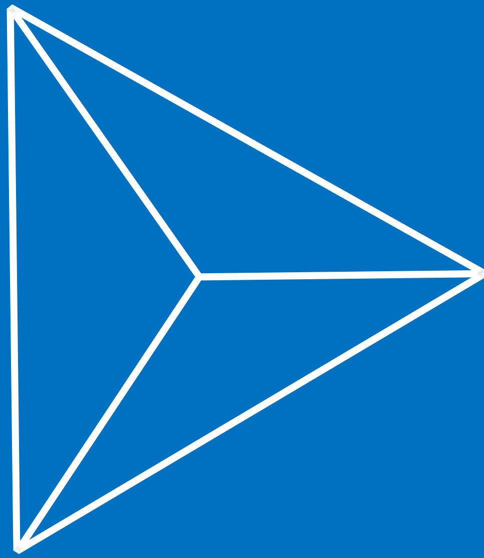


# Longbow Capital Portfolio Update

**Spring 2024**

LONGBOW

May 2024

Dear Longbow Client

**Portfolio Update— Spring 2024**

Please find attached our Spring 2024 Update on the performance of the companies in Longbow's portfolio.

A common theme among most (but not all) of our companies is the continuing need for more capital - to nourish their development plans – at a point in time when it has almost never been more challenging to raise money for unquoted securities. With political uncertainty and conflict around the world - upcoming US and UK elections, major warfare between Russia and Ukraine, Israel and the Palestinians, and potential conflict between China and Taiwan - and as inflation re-emerges many investors have become increasingly risk-averse.

This is reflected in the public markets. Both the number and value of new issues saw a surprising surge in the level of activity over the Pandemic period, followed by a dramatic fall over the past two years in both the US and UK (while the FTSE, the NASDAQ and the S&P 500 all rose to record levels).

This is illustrated below showing the number of IPOs on the London Stock Exchange from 2010 to 2023, whereby there were just 23 IPOs across the UK public stock exchanges last year – the lowest on record over this period – and none over the final quarter. It is hoped the markets will reopen to new issues over the course of 2024. Meanwhile the FTSE, S&P and NASDAQ have all risen to record levels indicating the capital inflows on public markets are being directed at large companies, best positioned to benefit from a renewed period of economic growth.

LONGBOW

For some time, the LSE's Alternative Investment Market (AIM) has been an effective vehicle for capital raising and, to a limited extent, to provide liquidity to the pre-IPO investors, but that virtually dried up with just 8 IPOs, which raised less than £1bn in 2023. Cash-burning technology companies: startups and early-stage companies need investors to believe in the longer-term capacity of new technology to transform markets and enable emerging companies to become profitable and fast growth businesses, that can attract M&A interest from private equity and strategic (trade) purchasers.

In many countries around the world, pension funds – one of the largest sources of investment capital – are encouraged by their governments to invest in alternative assets. In the UK, where pension funds hold assets worth over £2.5 trillion and receive inflows of some £115 billion each year, investments in alternative assets represent only 4% of pension fund investments, due in part to the increased regulatory restrictions that have been imposed on pension managers and operators, including SIPPs. Almost none of the 4% finds its way into young emerging companies that represent the country's future wealth generation.

It is encouraging however, that there is now a new initiative to address this issue, via the Mansion House Compact – a joint initiative announced last year by the Chancellor and the Lord Mayor of London - to form an agreement between nine of the UK's largest pension providers to commit to allocating 5% of their assets to unlisted equities (which we understand would include AIM and AQUIS markets) by 2030. This could unlock up to £50 billion of investment into high growth companies in addition to the activities of the Business Growth Fund (£4 billion invested since 2011) and the British Business Bank (which has provided £12.4 billion to more than 90,000 businesses). In the case of the latter, two of our portfolio companies (Sky Medical and Calon Cardio) secured co-investment from the Future Fund over the 2020/21 period.

However, the overall picture is that the vast bulk of capital being provided to start-ups and early-stage businesses continues for the time being to rely on private individuals and family investment groups. Tax incentives under the Enterprise Investment Scheme, VCTs and Business Relief continue to encourage private investors. However, without active IPO and M&A markets, much of that capital is locked up. Hence, emerging companies increasingly depend on existing shareholders, rather than new investors, to provide growth capital.

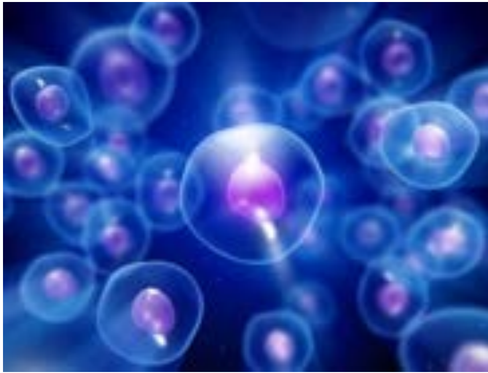
Despite these challenges, we believe in the virtues of the sort of companies in our portfolio: technology-led, enabled by rigorous regulatory compliance, with 'best in class' products appealing to fundamental needs of health and well-being to global consumers and medical professionals. The challenge, however, is to keep the companies sufficiently well resourced to continue forging ahead until they can deliver returns to their shareholders.

Best regards

TE Beckett RJ Petersen

**£7.14 per share: £55.6m Capitalisation Value**
(£8.60 on 30/09/2023)

Providing a definitive update as to Calon's progress at this time is a challenge, as there continue to be a number of alternative initiatives in play.



*(image—Celixir: Regenerative Medicine for Life)*

Principle among the alternatives is, without doubt, the combination of Calon with the stem cell company, Celixir, to create a new company (Cardiogeni) upon listing on a recognised stock exchange. Once listed, Cardiogeni would have access to the £100 million GEM facility to pursue development of both Calon's Fully Implantable Ventricular Assist Device (FiVAD™) and Celixir's cardiac cell regeneration. However, it is unclear to what, if any extent, this can offer liquidity to existing investors in either Calon or Celixir in the absence of other institutionally managed demand for stock.

The most recent development in this regard is the decision to list on London's 'second stock market', AQUIS (www.aquis.eu). This decision, still to be formalised, was taken in light of both cost and time considerations, combined with the paucity of IPOs on the LSE main market and AIM last year which almost halved in 2022 and recorded the lowest number and value of new issues since 2009. There were 20 IPOs (13 of which were on AIM compared to 16 new admissions on AQUIS) which raised less than £1bn in total over the first 9 months of 2023, with no IPOs completed on either LSE market in Q4.

EY, the global financial services group commented: "Whilst market conditions remain challenging, appetite for IPOs is high and smaller deals are emerging with improved after-market performance. With many governments now taking measures to boost IPO activity – particularly in high-growth economies – it's essential that IPO candidates focus on building fundamentals and managing price expectations to be 'IPO ready' when the window does open in 2024."

In preparation for the listing event, Calon and Celixir have jointly engaged with Hybridan, the recognised 'small cap broker and advisor' to commission the production of a research report taking a comprehensive view of the market, the technologies, etc. This report – running to some 56 pages – was received earlier this week. The Board (and Longbow) need to study this document very carefully, but a cursory review suggests that Hybridan strongly endorses the logic of the combination of the two companies and its commercial potential. Specifically …

> "… we think the combined Celixir and Calon approach presents a unique value proposition given their focus on the high value segment of the advanced heart failure market and most importantly, the high entry barriers generative cellular medicine and LVAD technology."

And further …

> "In summary, if the combination of Celixir and Calon can create a new franchise in the heart failure market, we believe this franchise is likely to deliver attractive economics and enjoy high visibility in the M&A and licensing market."

Now that the Hybridan research report is complete, Calon is free to engage directly with them about their role going forward. We have been told that the listing process on AQUIS should take some eight weeks but we are always cautious about predicting the pace of future events. A number of critical steps loom on the short-term horizon including:

- Cardiogeni must submit a detailed prospectus to the FCA
- Calon must agree the Sale and Purchase Agreement with Cardiogeni that will be triggered by the listing. This is not a trivial matter.

In the meantime, the company is still dealing with critical cash flow issues. Although we have previously reported that the £1 million 'crossover round' was fully committed, this should provide the company the 12-month runway that we (Longbow) insisted was essential. The dilution impact of the convertible loan notes issued under the crossover round and on other loans advanced to the company is recognised with a marginal lower share value, in our assessment of Fair Value at this stage.

The Board anxiously awaits receipt of the £300,000 of committed but as yet unpaid subscription proceeds, as well as an expected c£350,000 from an R&D tax credit. Over the course of the rest of this year, the company will also receive some £600,000 from an Innovate UK grant that the Company was awarded in 2023.

While Calon is committed to Cardiogeni/AQUIS/GEM model, the Board is still alive to alternative sources of funding and will continue to pursue them until the Cardiogeni listing is a reality.

In the meantime, work continues apace in Swansea. The workplan for 2024 centres around organising and energising the supply chain (already identified, as contemplated in our last report) in order to build the first fully functioning prototype of the FiVAD™ for regulatory review before the end of the year. In parallel, the existing MiniVAD™ will be implanted in several calves at the Texas Heart Institute in Houston, part of a transition from ovine (sheep) to bovine (calves) experimentation. The consensus is that the bovine model is more representative of the human heart than the ovine. This will also strengthen Calon's ties to the Texas Heart Institute, the recognised leader in the field of LVAD's.

In 2025, the plan is to produce 50 FiVAD's for bovine implantation, leading to the first human trials in 2026.

It is worth noting that Calon continues to have a strategic and commercial relationship with PhysicsX (www.physicsx.ai), the Bicester-based builder of "AI and simulation engineering technologies to re-invent the design and operation of machines in advanced industries." PhysicsX have already proved invaluable in optimising the flow of undamaged blood though Calon's MiniVAD. They will continue to be an important ally in Calon's future development.

All of this is happening against the back cloth of an IPO market that, in London, has been almost non-existent. In the words of James Lowen, who co-runs the JOHCM UK Equity Income Fund, the IPO market is "currently as good as dead." Others "firmly believe a window is opening for the IPO market". Let's hope the latter is right.

By the end of the current quarter in June, we will complete a reappraisal of Calon's value and take into consideration the deeply discounted nature of the recent Loan Note issue as well as the findings in the Hybridan report and expected range of values for a prospective IPO.

**£0.26 per share: £17.5m Capitalisation Value on AIM**
£0.70 on 31/12/23 (£0.51 on 30/09/23)

The Company held cash reserves of over £6 million at 31/12/23 and is funded through to Q1 2025, allowing it to deliver on its current planned activities. However, it will need to secure additional partners and/or licensees to fund the key Phase 3 clinical trials that will determine how its drug candidates can be commercialised. Even though the company continues to report positive developments in strengthening its executive team and Board as well as from its operational programmes, these are uncorrelated to the recent drop in share price. This appears to reflect the lack of clarity as to the commercialisation of Destiny's drug programmes, concern over how to fund the Phase 3 trials for XF-73 / MRSA programme and how much value is represented by the partnership deal with Sebela Pharmaceuticals for the NTCD-M3 / CDI programme.

Since the end of March, the share price has fallen further to 16p per share in April. Nevertheless, we continue to believe in the importance of Destiny's mission to develop superior drugs for treating some of the most intractable, life threatening and expensive to treat infectious diseases. We regard the current share value, as traded on AIM, as a buying opportunity for those who understand and believe in what the company is doing. Whilst Destiny's share price has underperformed the sector and market for much of its time as a public company, substantial value changes have generally been based on low volumes of shares being bought and sold, whilst the market waits for the company to secure the key value enhancing commercial deals.

In the Year End Business Update issued on 4 January, it was reported that: Destiny's priority remains to realise the maximum value for its XF-73 Nasal asset, given the substantial market potential of this product for Destiny Pharma and the significant potential benefits it presents for both patients and health systems. The Company is evaluating all options to achieve this, including continuing discussions with a number of potential partners, with a view to delivering the best deal to maximise shareholder value.

Beyond XF-73 Nasal, Destiny looks forward to advancing the NTCD-M3 development programme through 2024, alongside its partner, Sebela Pharmaceuticals. Pre-clinical results are expected imminently for XF-73 Dermal and, in addition, the Company expects to make further progress across its XF drug platform and assets with target indications established for both XF-73 Dermal and XF-70, a novel anti-fungal from the XF drug platform, later in 2024.

Chris Tovey, Chief Executive Officer of Destiny Pharma, commented: "I am extremely excited by the potential of our products to reduce the emergence and impact of drug-resistant pathogens, and since arriving as CEO in September, I have been evaluating with the Board the best way to realise their full value."

On 22 January the company announced the appointment of Shore Capital and as its Nominated Adviser and Shore Capital Stockbrokers as its sole broker shortly before providing an update on its clinical development programmes for two of its drug development platforms. In April, the company announced the commencement of a review of strategic options to support the company's advancement of XF-73 nasal through Phase 3 clinical trials.

DestinyPharma

**XF-73** – is the proprietary drug Destiny has formulated as a gel and is administered topically in the nasal passages, designed for the prevention of post-surgical staphylococcal hospital infections (including MRSA). This compound has been developed further as XF-73 Dermal: a novel formulation for the treatment of antibiotic resistant skin infections associated with open wounds and broken skin. Conducted as part of a non-clinical evaluation agreement with the US National Institute of Allergy and Infectious Diseases (NIAID)[1], the *in vivo* safety study met all endpoints. Importantly, XF-73 was retained locally at the site of wound application with negligible amounts seen in the bloodstream, further supporting the safety profile of this product. Subject to regulatory approval, these positive safety results enable the progression of XF-73 Dermal into clinical studies for evaluation in a wide range of serious infected skin and wound conditions.

**Chris Tovey, Chief Executive Officer of Destiny Pharma, added**: *"The data from this XF-73 Dermal study are highly encouraging. There is a significant unmet need in DFI and serious burn wound infections, and we look forward to progressing our XF-73 Dermal product into the clinic. Our research across the XF-73 drug platform has demonstrated potency of XF-73 against thousands of different strains across Staphylococcus, including MRSA, which are prolific in causing DFI and serious burn wound infections. By moving forward with this asset, we will broaden our pipeline in an area of significant market potential, further validating the potential of the XF drug platform to reduce the emergence and impact of drug-resistant pathogens. I look forward to providing further updates in due course."*

**Dr Bill Love, Chief Scientific Officer of Destiny Pharma said**: "*I am delighted to announce this positive dataset. With these results, we can move XF-73 Dermal into the clinic with the confidence that it has the potential to meaningfully improve outcomes in these two painful, prevalent and potentially deadly conditions.*"

NTCD-M3 is the world's most advanced live biotherapeutic product (LBP) for the prevention of C. difficile infection (CDI), the leading cause of hospital acquired infection in the US.  Separately, each year 18.6 million people worldwide are affected by a diabetic foot ulcer, (1.6 million in the US) with 50 to 60% becoming infected. About 20% of moderate to severe DFU lead to a lower extremity amputation and the five-year mortality rate for sufferers is 30% and exceeds 70% for those with a major amputation. Although burn wound infections are less frequent, the consequences of infection are equally serious. Of patients who experience greater than 20% body surface area burns, up to 30% of these will go on to develop sepsis, a life-threatening infection of the blood which represents the most common cause of death in burn patients.

Over recent months the Company, along with its partner, Sebela Pharmaceuticals ("Sebela"), has strengthened manufacturing for clinical trial material and future commercial supply, and therefore further strengthen the competitive profile of NTCD-M3.

These improvements mean that the company now expects drug product for the next stage of clinical development to be available in H2 2024. Sebela, who is responsible for the clinical development plan, is assessing the impact of these changes on the development plan. This may include a further Phase 2 study for NTCD-M3 to de-risk a Phase 3 study. As previously announced, Sebela has the right, at its own cost, to complete any further trials.

**£70.00 per share: £46.3m Capitalisation Value**

(£70.96 on 30/09/23)

Our share valuation for Domainex continues to be based on metrics applied to turnover and profitability as well as the rate of growth.

Our 2023 updates reported impressive continuous strong growth for the fourth year in a row. However, since last Autumn this has levelled off, due to demand in the marketplace easing combined with a shift in Domainex's focus on higher value, more complex biochemistry services. Since the Pandemic ended, it is reported that lower margin contracts (in particular, synthetic chemistry) and less complex services are being directed increasingly to lower cost providers in India and China. Most of Domainex's customers are biotech companies in different regions around the world that rely on private equity funding to maintain their ongoing drug development programmes. There has also been a widely reported slow-down in the deployment of capital by PE firms. More encouraging, it is also reported, that there are signs of renewed and increased demand for biotech service provision.

The full financial year to 31/12/23 delivered increased revenue of £15.4m (LY: £12.5m) and EBITDA of just under £2m (LY: <£1.5m). The first half proved stronger than the second half of 2023 and the first quarter of 2024 has also seen a marginal reduction year on year in both revenues and new contract wins, signalling there are challenges ahead for the company to resume growth. Cash on hand fell back to £2.6m, from £3.1m a year earlier, due to a significant capital expenditure programme: fitting out the new biology laboratory facilities at the Sigma Building on Unity Campus (pictured below), located near Cambridge.

Dr Trevor Askwith, Head of Biology, commented, "The whole team is delighted with the new facility and space to expand our biology and bioanalytical capabilities. We are continually investing in cutting-edge technologies and developing new services. We launched a new cryo-EM service last year and recently expanded our suite of biophysical instrumentation by adding spectral shift technology, a third, multi channel grating coupled Interferometry WAVEdelta system and a PEAQ-ITC instrument. The additional space will allow for further expansion and innovation."

As mentioned in our Autumn update, Domainex undertook a strategic review of its business in 2023. This led to some limited structural re-organisation, focusing the company's growth plans around fully integrated drug discovery development programmes that combine the organisation's unique breadth of skills and proprietary technology. The company will increasingly emphasise the biochemistry and bioanalytical divisions, areas offering the strongest growth prospects and where Domainex has the greatest competitive advantage. Much of the work it undertakes in these areas of activity is more complex and specialist, with fewer alternative providers in the UK for Domainex's current and potential customers to choose from. This will require a strengthening of the business development capabilities of Domainex, and plans are well advanced to appoint a new Chief Commercial Officer/Sales Director as well as to establish a permanent sales and business development capability in the Northeast USA.

Domainex
Enrich your medicines pipeline

Domainex is becoming increasingly global and attracts customers from across the USA, Europe, Asia and Australia. The UK still accounts for the largest volume of business by value and specialist biotech novel drug development organisations are a more natural customer base for Domainex's larger and higher value integrated contracts. This can create a high dependency on its customers closing their own funded programmes or equity financings in order to proceed with awarding Domainex service contracts. Hence the company is careful with its client selection in terms of financial exposure and long-term viability, where contracts can grow and develop over several years. Today, the customer base of over seventy five companies includes eight out of the ten biggest pharma companies.

The London office of RW Baird has been appointed to undertake a review of the business. Baird is a global investment bank with a mid-market focus, an excellent track record and deep expertise in Domainex's sector. Baird has concluded that M&A activity could provide Domainex with opportunities to scale and enhance its service offering in order to become a global leader in end-to-end drug discovery. As such, Domainex can be attractive to a wide range of different potential acquirers with the resources to fund the company's future growth. This has resulted in several companies, including both private equity and strategic trade purchasers, expressing their interest in Domainex as a potential acquisition target. A process is in place to explore options in this regard over the summer period.

ipulse™

**£2.58 per share: £129m Capitalisation Value**
(£2.37 on 30/09/23)

CEO Robin van Rozen (pictured) has been undertaking a thorough review of IPulse's operations, since taking the helm in early 2023. After completing his first year, the Company is undergoing an evolution across all elements of the business. This includes strengthening the leadership team, improving manufacturing and new initiatives in innovation and product design. He is also considering how – in addition to the hair removal market – the company could address the far larger skincare market, over its next phase of planned growth.

Over the past year, the company has faced various challenges with the newly appointed (prior to Robin's appointment) distributor in China who has failed to reignite SmoothSkin sales in that region. China had been a major factor in the rapid growth iPulse enjoyed over 2019 and 2020, including the early phase of the Pandemic outbreak, prior to an equally rapid decline over 2021 and 2022. China's IPL market is now dominated by a domestic producer, Ulike, who are ferocious marketeers in China, where they are now the dominant brand in the IPL category. Ulike has also become an aggressive competitor in the US market and is building a significant share in the European market.

More encouragingly, Braun enjoyed strong demand for its IPL products (supplied by iPulse's manufacturing subsidiary Cyden) over the final quarter of 2023. This was the result of increased investment in marketing which has continued into the first quarter of the current year as Braun restocked their inventory with the new wireless product.

While CyDen has two factories based near Swansea and Shanghai, manufacturing is still predominantly carried out in Wales. However, the Shanghai operation also oversees much of the component sourcing from Chinese suppliers. With strengthened operations leadership, the Company has identified ways to reduce manufacturing costs, without compromising quality. Over time, this is expected to shift more manufacturing to Shanghai. Reduced costs can be shared with Braun which will encourage increased investment in their marketing of the Braun Silk range of IPL products. As demonstrated by Ulike, volume sales are directly correlated to the level of marketing and promotional activity.

The sales strategy for iPulse's brand of SmoothSkin products has also undergone a reorganisation. This will focus increasingly on the key markets in Japan, Europe, North America and China.

Another positive development re-emerging from iPulse after the past 12 months is the strengthening of its innovation: developing IPL handsets with features that can improve their utility, effectiveness and appeal to end users and purchasers. The iPulse management team has developed a product development roadmap to build on its reputation as the leading producer of well-engineered, high quality, safe, reliable and effective IPL products. This will incorporate important user benefits such as wifi- enabled, wireless connectivity, multiple changeable treatment heads, cooling systems to reduce heat on the treatment heads, etc.

For example, The new top-end wireless device: 'SmoothSkin Unplugged' has been launched in Japan with very positive user feedback although sales volumes have been constricted by the relatively high price point. A similar product has also been developed for and shipped to Braun as they look to launch a wifi-enabled wireless product with a bespoke APP as their top of the range IPL product over the remainder of this year.

ipulse™

iPulse's patented new 'AdaptPlus Technology' provides improved skin contact and is the only IPL device on the market that features a responsive treatment head. This follows the contours of the different areas of the body being treated and provides uniquely optimal skin contact and skin tone sensing, delivering the most effective, safest and longest-lasting results.

Designed to work with iPulse's Smart Skin Sensing technology, this ensures effortless hair removal and fewer missed treatment spots with up to 99% hair growth reduction in 12 weeks demonstrated in trials. The SmoothSkin Pure Adapt product has recently been launched on Amazon in the UK and US, as iPulse looks to take an increasingly direct approach to sales across Europe and North America, in addition to its subsidiary operation in Japan.

As mentioned above, the Company is also actively considering a range of options to develop products for the skincare market and will unveil these plans with a launch of its first skincare device in the Autumn.

The full year results for 2023 were in line with the anticipated levels in our last report with a small uplift to £85.5 million in sales and an EBITDA of £2.5 million. There will be a change in the way revenue is reported from 2024 onwards, where the direct sales promotion costs such as coupon or voucher costs are deducted from gross sales and not added to marketing overheads. On this basis the budget for the current year anticipates a small decline in revenue but a 20% uplift in EBITDA. After the first four months, financial performance is in line with this which suggests the company can return to sales growth in 2025.

It is hoped that, with a range of exciting new products in the pipeline, the new features will be promoted and marketed to end users to support growth for both Braun Silk and Smooth Skin branded products. With a focus on fewer but larger markets to supply, management is confident that iPulse can grow its global market share once again.

Our valuation has remained flat over the past 6 months at £2.58 per share as sales start to recover and EBITDA margins are rebuilt. As the new strategy enables growth to resume, we expect this to be reflected in the Fair Value we place on iPulse shares. However, the recent turnaround process is still ongoing and the prospects for an exit will be enhanced over time as new products enable iPulse to account for a growing share of the global IPL hair removal market. In parallel, iPulse will begin to build a presence in the much larger skincare market. Both areas remain relatively young markets with scope for light therapy to become more widely adopted in the home-use environment. The Board firmly believes there is significant growth opportunity for iPulse, but shareholders will need to be patient for the time being.

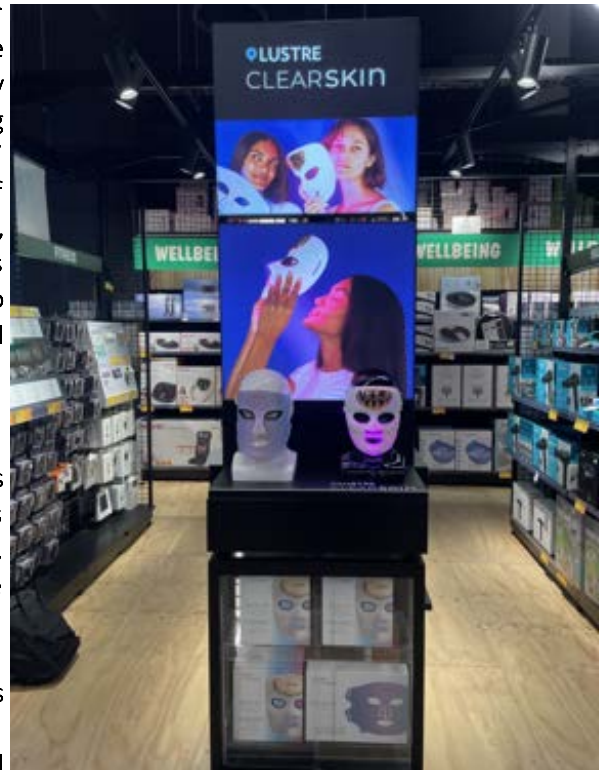
LUSTRE SKIN

**£0.20 per share: £5.7m Capitalisation Value**
(£0.20 per share 30/09/2023)

The last six months has seen a continuation of progress at Lustre Skin, with sales from the company's web site up 65% year on year and 74% up YOY across all channels.

The most exciting developments have been in the marketplace, where Lustre is beginning to make a real impression. In our last update in November, we reported on relationships that had already been built with a number of distribution partners – and those relationships have continued to grow:

- JB HIFI is Australia's #1 consumer electronics retailer (managed by GAP Aus). They have supported the sale of the Renew and Revive facial masks with free standing display units, at their expense, in 60 of their 100 currently stocking stores (pictured). Even more significant is the 'breaking news' that their Mother's Day promotion (the first two weeks of May), when they heavily promoted the Lustre products, yielded sales that exceeded even their two-week Christmas promotional period. Consideration is now being given to television advertising, along with expansion into all 200 JB HIFI locations. This partnership alone could account for over £1 million in revenue to Lustre.




- The partnership with the Face Gym beauty brand is flourishing. Based on the strength of the sales of Lustre's SOLO™ acne 'pod' under Face Gym's 'Acne Light Shot' name, Face Gym have decided to offer the Renew and Revive facial masks in all their UK studios.

- The proposed test market for sales through AVON is confirmed. It will now encompass both AVON Italia *and* AVON UK. As we understand it, Lustre products will be promoted largely by the most effective of AVON's sales agents, starting in Q3/Q4 of this year. This initiative has strong top management support within AVON. (Their newly appointed CEO is a long-time colleague of Anna Teal and Karl Graham, Chairman and CEO of Lustre, respectively.)

- Anna and Karl are in dialogue with other potential 'omni channel' partners, including Selfridges and Beauty Bay.

Working with finite resources, Lustre is witnessing strong organic growth in its 'direct to consumer' (DTC) digital channels. After Herculean efforts by, in particular, Lustre's CFO, Daniel Wolf, many of the byzantine challenges of doing business with and through Amazon have been surmounted and the company is now looking forward to substantial growth in both the UK and Germany.

LUSTRE SKIN

New products will play an important role in Lustre's future. The company has invested much time in perfecting the design of its wireless 'patches', which will be available shortly. The management is also exploring the development of a range of photoactive topicals that will amplify and enhance the efficacy of the company's LED-driven devices.

On the all-important funding front – the Open Offer - Lustre has now raised £1.8 million of its £2.5 million objective, largely on account of ongoing support from its existing shareholders/Longbow investors. The company expects to put in place additional underwriting before the end of May as it looks to close out the final £700,000 in the Autumn.

We continue to believe that, with additional resources put behind it, Lustre can become a leader in one of the fastest-growing segments of the highly competitive but expanding global beauty and skincare market – for home use light therapy devices.

**£0.50 per share: £62.4m Capitalisation Value**
(£1.00 on 31/09/2023)

Sales in 2023 of £2.3 million were almost 150% up on the revenue in 2022. Financial performance remains on plan across all areas of the business: Q1 revenue of £600,000 is 5% above budget. The company is predicting that sales in 2024 will grow rapidly over H2 and could be double that of 2023.

While this is encouraging, the company continues to burn capital (Q1 losses of £1.2 million were £185K less than forecast) and consume cash. In the absence of, for example, a substantial licensing/royalty event, the company faced running out of cash at the end of Q1 2024, precisely as we had signalled in our last 6-monthly update.

Hence, at Longbow's instigation, Sky Medical launched a deeply discounted rights issue, based on a loan note issue with a conversion price of £0.10p per share, partially underwritten by several of the largest shareholders, including the Baran family interests. The intention was to raise £5.3 million in new equity.

In the event, the issue was oversubscribed (by £300K) by existing shareholders and the underwriting facilities did not have to be utilised. Rather than scaling back all subscribers by a relatively small amount, the Board extended the round by an extra £300K (to £5.6 million), funding that should cover ongoing losses and take the company into Q2 2025, in the absence of any licensing/royalty event in the meantime. However, the consequence of this has been to more than double the number of shares in issue to 125 million shares (incl options and warrants). Compared to last November, there is now a much-enlarged share base, and hence the change from £1.00 last November to £0.50 per share, following the recent discounted rights issue.

While the funding issue dominated the latter part of 2023, the most important commercial development was the successful listing on the UK 'Drug Tarriff' of the use of Sky's Geko™ device, in wound healing. For the first time, Geko can be prescribed for patients with persistent, hard-to-heal wounds. This follows on the heels of the landmark Randomised Control Trial (RCT) which demonstrated that Geko can aid in closing persistent wounds at a rate two to three times faster than the current 'gold standard' compression dressings alone.

The company is now seeing a slow but steady growth in prescriptions in the UK. This is strategically important since sales under the Drug Tariff are inherently high margin: through this channel, Geko is sold at £30 per unit.

In the orthopaedic application, adoption continues to be led by Surgery Centres in the United States, where real-world data from a US registry was made available in 2023. This data clearly shows significant oedema reduction when Geko is added to the current standard of care (compression pumps). Oedema frustrates the treatment of, for example, knee and hip replacements.

The use of Geko in stroke patients for DVT prevention also continues. At the NHS Royal Stoke University Hospital, Geko is now used on 50% of stroke patients – and patient compliance is said to exceed 90%, four times the rate of the traditional compression pumps. This is a reflection of Geko™'s light weight, ease of application and comfort in use.

SKY MEDICAL TECHNOLOGY

We reported in our last update encouraging growth in the use of the Firefly™ device in the United States in the elite sports field in the United Sates. Firefly incorporates the same On-Pulse technology as in the Geko but is separately branded and configured for non-medical settings. Top-tier universities and professional sports teams in the US are using Firefly both to accelerate recovery from strenuous training and to speed up healing from injuries.

That development has continued into 2024 and is the main driver to recent and current revenue growth: Sky's US sports distributor continues to expand its customer base, increasing revenue 20% quarter by quarter. Sky's management team is considering the alternatives to maximise this opportunity. We would recommend that you briefly peruse the US Firefly web site: www.recoveryfirefly.com. We believe this is a potentially significant development.

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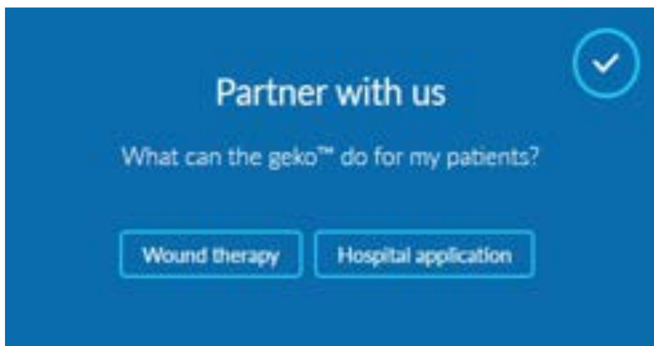
While we are beginning to see encouraging growth in wound care, orthopaedic surgery recovery, DVT prevention and sports recovery, the rate of growth is, as yet, insufficient to take Sky to the point of cash positive self-sustainability within the next 12 months … by which time, Sky will again need a further capital injection, which it is hoped may be met in part if not in whole by a significant cash-generating event such as an up-front royalty deal to license out Geko for use in wound healing.

The company has, for the better part of a year, been in substantive discussions with one of the world's leading wound care companies. In parallel, Sky has engaged KPMG Corporate Finance to 'manage the process for selection of the most attractive strategic partner(s) … and the related deal structure options for our wound franchise.'




We strongly support these discussions. A meaningful licencing deal (with some form of up-front payment) with a global player would address the company's cash needs while validating the therapeutic and commercial value of Sky's OnPulse™ technology which we believe would then underpin a value placed on Sky and potentially make it an attractive target for M&A, quite possibly as early as next year.

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