CREO MEDICAL (LON: CREO)

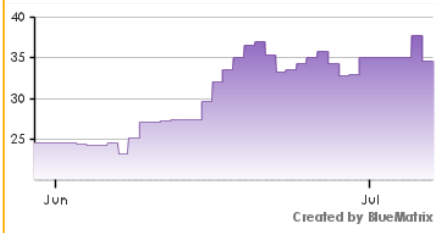
November 24, 2023

proactive research

Biotechnology

52-WEEK HIGH	**86.86p**
52-WEEK LOW	**18.34p**
PRICE	**33.10p**
MARKET CAP MLN	121.41p

Share Price



Major Shareholders

Shares in issue	350,891,272
Avg Three-month trading volume	694,744
Primary index	AIM
Next Key Announcement	FY22 results

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Expert view on Creo's tech

Enthusiastic users and thinner Speedboat show growth prospects

In a well-attended Capital Markets Day on Nov 7, Creo made no new announcements but showed qualitatively how the next few years are likely to evolve with insights from three enthusiastic medical users. We took on board three important qualitative observations from the event.

Firstly, the importance of the new 2.8mm diameter Speedboat UltraSlim (current models are 3.2mm). Most endoscopy systems use 2.8mm diameter tools so Speedboat UltraSlim opens up use with a vast number of installed endoscopic platforms. This should significantly drive use.

The second observation was how small these devices are. Seeing the minute devices in-person makes one realise what an achievement this is. The skill and ingenuity to fit a needle, two energy circuits (bipolar and microwave) into the tiny ceramic hull (that prevents underlying muscle damage) is remarkable. The Speedboat UltraSlim was FDA-approved on 1 Nov 2023; the European early-adopter launch is planned for early 2024.

The third aspect is the growing importance of the relationship with robotic surgery companies like Intuitive. A deal was announced in May 2022 to adapt Kamaptive energy technology for use in robotics. It is becoming clearer that this is focussed on microwave coagulation to stop localised bleeding. A further deal is also in discussion. A partnership with CMR Robotics was announced in Oct 2022. These partnerships are very important as they are expected to generate royalties and other revenues.

We heard about SpydrBlade, a scissor-based device for removing highly vascularised tissues by combining bipolar cutting and microwave coagulation. It is CE-marked and under FDA review. SpydrBlade seems to be the only device to deliver dual energy through the wrist of a robot arm. If the technology proves itself in numerous applications, the market is vast.

Clinical insights

Coupled with these product-focused observations were the clinical insights from two leading UK endoscopists and a thoracic surgeon.

The endoscopists provided a clear overview of how Speedboat enables the fast removal of precancerous and early-stage cancerous bowel polyps and oesophageal cancers. They estimated that about 40% of bowel cancer cases could be treated as outpatients by using Speedboat. The impression was given that cases were best handled in regional centres where endoscopists would gain wide experience in removing complex polyps in one piece. This allows a histological check that all cancer was removed, thus curing the patient. In oesophageal cancer, the lesion can be removed cleanly. Older methods often cause perforations in and narrowing of the oesophagus resulting in further interventions. Speedboat UltraSlim will allow more endoscopists to adopt these techniques.

Finally, the use of the development-stage Microablate probe was illustrated to treat early-stage lung cancer nodules. The probe is inserted into the nodule and destroys it by localised heating. It has potential in multiple indications. Human clinical use started in trials is in May 2023.

Year end Dec 31	2021	2022
Revenue (GBP-mln)	25.2	27.1
Gross Profit (£mln)	12	13
EBITDA (£M)	(19.0)	(22.8)

Craig Gulliford, chief executive officer, took up the role in 2012. Between 1999 and 2009 he was the chief operating officer of ACIS, a leading UK telematics supplier, which was bought out by the Carlyle Group in 2009 and sold to Vix in 2010. He has an MSc in Electronic Engineering from the University College of North Wales

Chris Hancock, chief technology officer, is Creo's founder. He has over 20 years experience in medical device development, including four years as senior engineer at Gyrus Group PLC. He holds academic positions at UCL and Bangor University; he is a chartered physicist and engineer, and he has won an award for his pioneering work on Creo's CROMA Advanced Energy Platform.

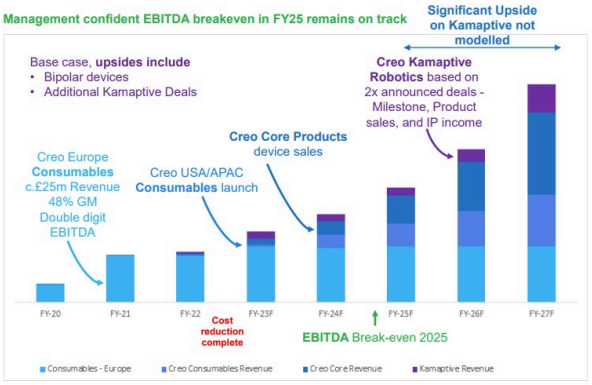
David Woods, chief operating officer, is the newest member of Creo's management team, having joined in 2020. Prior to this, he spent 20 years at Pentax Medical Americas — the US subsidiary of global device specialists, Hoya Medical — where he served as president, global chief marketing officer and global mergers and acquisitions director.

Growth projections

The Creo Capital Markets Day provided a good overview of the strategic course of the business since the fundraising of £33.7mln (before expenses) in March 2023.

Creo management expects a positive adjusted EBITDA by FY25, Exhibit 1. The main sales growth is in the Creo core products of Speedboat, and from 2024 Speedboat UltraSlim, and we expect SpydrBlade once approved. The US is the main growth market with the UK as the home test market. Consumable sales linked to Speedboat procedures are expected to develop. We also expect a clearer picture of robotic royalty-based revenues to emerge over the next 12-18 months. Further robotic deals are possible.

Exhibit 1 - Creo Managment sales projection



Source: Creo Medical (March 2023)

Margins, costs, tax and profits

Although Creo management still guides to a small pre-tax loss in 2025, this is offset by tax credits, so an overall adjusted positive EBITDA is expected. This is despite UK R&D tax credits becoming much less favourable to SMEs. Creo is not likely to pay tax before 2027 due to accumulated losses.

Drivers of growth

The key to Speedboat sales growth is the training of specialists. At the Capital Markets Day, it was disclosed that about 600 doctors are either trained or due for training, of whom about 180 are active users; 80 in Europe and 60-70 in the US with the balance (about 30) in Asia-Pacific. We gained the impression that most use is likely from centres where all endoscopy rooms have a Kamaptive generator and there is both a steady stream of referrals and a stock of Speedboat products and accessories. One doctor remarked that at least 50 referrals a year are needed per doctor to maintain the relevant skills.

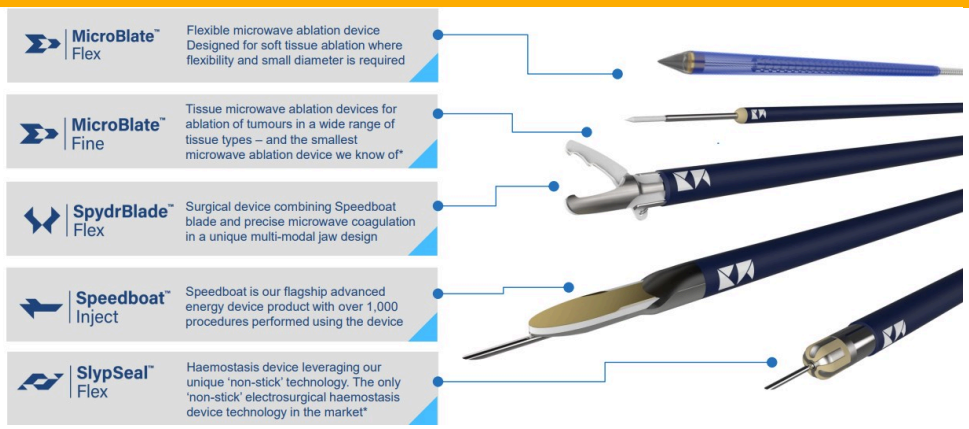
FY22 financials and FY23 interim results

Creo's current revenues are largely due to the consumables business selling third-party products in Europe (incl. UK). FY22 revenues were £27.2mln with a loss of £25.4mln and Dec 22 of £13.1mln. In March 2023, Creo raised a total of £33.7mln gross (we estimate about £31.7mln net). The H1FY23 results showed revenues of £15.7mln of which £0.9mln was Creo own products. EDITDA loss was £9.2mln, a half-on-half improvement of 15%. Cash on 30 June 2023 was £26.5mln.

Core products

The Creo product range is shown in Exhibit 2.

Exhibit 2 - Creo product range



Source: Creo Medical

User catagories

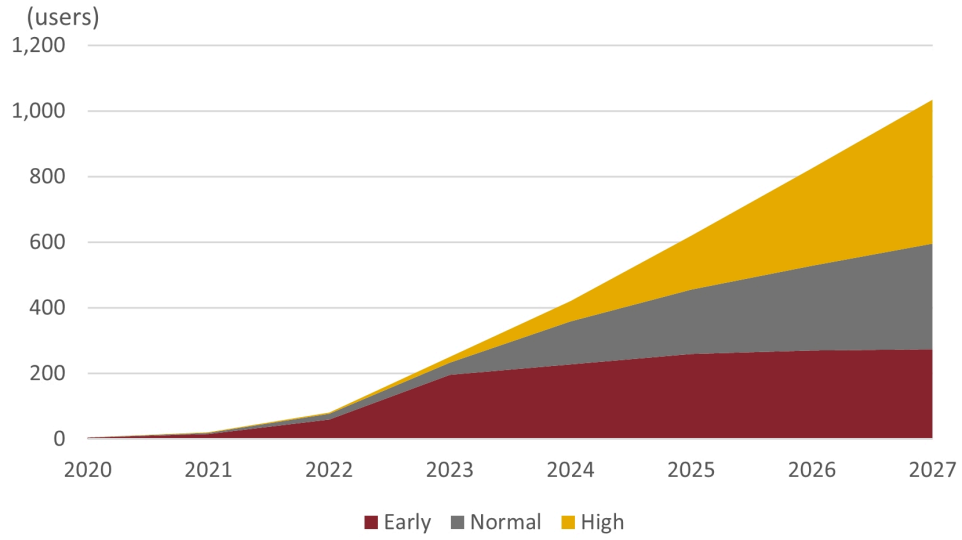
Creo models its expected sale development based on use rate per trained surgeon with three categories assumed.

Early: Still adapting to the technology. These are expected to run one procedure per month on average so each generate about $11k per year. However, most are expected to gain confidence and could progress to normal users.

Normal: The surgeon has the equipment but not using it to its full capacity perhaps because of the patient mix or limitations on reimbursement. These use on average one device per week or 52 each year generating about $45k a year in sales.

High: These do on average about two procedures a week, so each generates around $90k a year in sales. A proportion of specialists with dedicated clinics will run many more.

Chart 1 - Cumulative, active users



Source: Creo report and estimates

Not all early users are converted to normal or high users. The conversion rate from normal to high users was around 7% in 2021 according to Creo. As noted, we now expect the highest users to be in specialist centres.

Clinical overview 1 - North West England regional centre

Dr Khalid from the Northern Care alliance put the importance of Creo's products into context. He cited the prevalence of bowel cancer in the UK, with 43,000 new diagnoses annually. Creo's technology used for polyp and tumour resection of cancers in the bowel is especially important as healthcare systems improve their screening processes since it takes around 10 years for a polyp to develop into a tumour. With only a quarter of diagnosed patients currently considered viable for resection, this proportion will only rise with better screening. This means a rise in demand for minimally invasive and effective treatment options. The dual energy cutting and coagulating functions of Speedboat make resection more accessible and effective.

Dr Kahlid also highlighted the advantage that Speedboat offers in allowing the removal of polyps in one piece. The 'scraping' method in which polyps are normally removed involves slowly removing a section of polyps piece by piece. This is a painstaking process in which pieces of polyps are often missed, which can mean that they recur later on and requiring still further treatment. Removing in one piece allows a histological examination to check that a disease-free margin exists around the resected tumour. If so, the patient is cured.

Speedboat's extending needle allows clinicians to lift specific layers of the bowel away from the muscle wall according to the depth of the polyp. This is important because it allows practitioners to remove the polyp in one piece, and minimises the risk of damage to the muscle wall.

According to Dr Khalid, Speedboat potentially has the capacity to significantly lower the current 10-20% recurrence rate of polyps, reducing the need for further treatment and alleviating demand on the healthcare system. With a projected 44% increase in demand for endoscopies in the UK over 5 years, Creo's technology could become crucial to dealing with the rise in treatments.

Clinical Overview 2: East Midland, bowel and oesophageal endoscopic surgery

Dr Parra Blanco emphasised the critical nature of perforation prevention in oesophageal treatments. Creo's technology can help mitigate the strictures (narrowing of the oesophagus) which is seen in 84% of cases. He explained how this often leads to clinicians having to administer procedures such as balloon dilation which can require repeat treatments of many months. Speedboat's ceramic hull makes it easier for clinicians to avoid damaging the muscle wall and reduce the incidence of strictures.

Clinical Overview 3: London based lung surgery

Tom Routledge gave a surgeon's view on Creo's technology and its robotics applications. He pointed out that 50% of oesophageal cancer procedures in the US are now robotic. Creo's partnerships with Intuitive and CMR surgical speak to this growing sector, with a claimed CAGR of 15%.

Considering Mr Routledge's citation that robotic surgeries exceeded 10mln in 2022, Creo's integration of its products such as Microblate Flex into robotics applications, and its wider development of robotics partnerships show the company's strategic positioning in the market.

On top of this, he emphasised the importance of surgical tools having multi-use capabilities.

Conclusion

The Creo Capital Markets Day provided a good overview of the strategic course of the business since the fundraising of £33.7mln (before expenses) in March 2023.

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