

RENALYTIX AI

Update re. potential demerger of FractalDx and distribution in specie

April 28, 2020

Download [full announcement](#)

Proposed capital reduction and notice of General Meeting

Renalytix AI plc (LSE: RENX), the AIM-traded developer of clinical grade artificial intelligence *in vitro* diagnostics for kidney disease, announces that a circular (a "Circular") will today be sent to shareholders providing background to, details of and reasons for, a proposed Capital Reduction and Distribution in Specie, to facilitate the possible spin-out and admission to AIM of FractalDx, the Company's technology portfolio of diagnostic and prognostic products, in-licensed from Mount Sinai in late 2018. Definitions contained in the Circular have the same meaning as in this announcement.

On 3 March 2020, the Company announced in its half-year report that the Board was considering options for a possible spin-out and admission to AIM of FractalDx. Such a spin-out transaction could:

- provide the opportunity to secure separate financial resources for the FractalDx portfolio, with the goal of enabling accelerated development of FractalDx products and achievement of commercial milestones; and
- allow Shareholders to benefit from both the pure-play value of the FractalDx portfolio of transplant products and the standalone value of KidneyIntelX as it progresses through its own key milestones over the next 12 months and beyond.

The Board has now determined to take the necessary preliminary steps in preparation for a potential spin-out, including the incorporation of a new subsidiary, Verici Dx Limited. The Company has decided to proceed in obtaining the approval necessary for the Capital Reduction which is required to implement the Demerger. Notwithstanding that the necessary approval for the Capital Reduction is being sought, these considerations remain at an early stage and there can be no guarantee that the Demerger will be completed. The approval of the Capital Reduction enables the Board to declare distribution in specie of Verici Dx shares to existing RenalytixAI shareholders. Further announcements will be made at the appropriate time.

The Board is seeking approval from Shareholders at the General Meeting to cancel the share premium account of the Company in its entirety in order to create realised profits. The realised profits created by the Capital Reduction will eliminate the accumulated deficit in the Company's profit and loss account and will be used to implement the Distribution in Specie and improve the Company's distributable reserves.

Background and reasons for the Capital Reduction and Distribution in Specie

As announced in its half-year report on 3 March 2020, the Company has been evaluating its plans for its FractalDx technology, in-licensed from Mount Sinai in late 2018, which is based on extensive scientific research findings published in leading clinical journals ("FractalDx"). The FractalDx technology is based principally on sequencing biomarkers from a patient's blood using widely available instrument platforms and the Company is actively developing two products from the portfolio: a prognostic test performed prior to transplant to predict which transplant recipients are most at risk of acute rejection; and a diagnostic test for evidence of rejection of the transplanted kidney in advance of any clinical symptoms. The Board believe that both tests will be instrumental in guiding patient care including immunosuppression therapy dosing to mitigate the toxic side effects and damage to the transplanted kidney due to excessive dosing.

Having considered these plans in further detail, the Board has decided that a spin-out and admission to AIM of FractalDx may provide the opportunity to secure separate financial resources for the FractalDx portfolio, with the goal of enabling accelerated development of FractalDx products and achievement of commercial milestones. It is anticipated that a spin-out pursuant to the Demerger would allow the Company's shareholders to benefit from both the pure-play value of the FractalDx portfolio of transplant products and the standalone value of KidneyIntelX as it progresses through its own key milestones.

The Company is in the process of completing various steps in anticipation of the implementation of the potential Demerger, including the transfers to Verici Dx Limited, the Company's recently incorporated wholly owned subsidiary, of the in-licensed FractalDx technology and associated assets (the "Assets").

The purchase price for the Assets will be their current book value (which is currently \$2 million) and these funds will be lent to Verici Dx Limited by the Company pursuant to a secured zero interest inter-company facility agreement (the "Facility"). The Facility allows for Verici Dx Limited to make further drawdowns to be used in the development of the Verici Dx business. The Company may seek full repayment of the Facility on either the date that is twelve months from the date the Facility is entered into ("Anniversary Date") or on completion of the Fundraising (if prior to the Anniversary Date) or the Company may convert the debt outstanding under the Facility into equity in Verici Dx Limited either: (i) prior to the Distribution in Specie; or (ii) on or around completion of the Fundraising (if prior to the Anniversary Date in both cases), with such equity also being subject to the Lock-In Period.

The Directors believe that the FractalDx portfolio has the potential to deliver significant upside value for Shareholders. The Directors are therefore exploring funding options for that business, including equity funding, and the Directors intend on conducting initial market soundings in order to assist them in determining the feasibility of an initial public offering. Further announcements will be made at the appropriate time.

The Company expects to distribute shares in Verici Dx Limited to Shareholders by way of the Distribution in Specie. However, the Company currently has negative reserve balances. In order to implement the Distribution in Specie, it will therefore first be necessary to create realised profits. Moreover, the Board considers it highly desirable that the Company has the maximum flexibility to consider the payment of dividends and otherwise return value to its shareholders in the future.

The Company's Share Premium Account currently stands at approximately \$50,138,270. As at 31 December 2019 the Company had a retained earnings deficit of \$3,216,493. It is proposed that all of the Share Premium Account be cancelled.

The purpose of the cancellation of the Share Premium Account is to eliminate the deficit on the Company's profit and loss account and to create distributable reserves in the Company to facilitate the:

- Distribution in Specie;
- future consideration of payment of dividends to shareholders where justified by the profits of the Company; and
- the redemption or buy back of the Company's shares where desirable.

The value of the Distribution in Specie (the "Value") has not yet been determined and the amount of Verici Dx Shares (the "Ratio") that each Shareholder would receive pursuant to the Distribution in Specie has not yet been determined. Subject to the results of the market sounding exercise, the Board intends to declare the Distribution in Specie shortly prior to completion of the Fundraising, at which point the Value and the Ratio will be determined and announced to Shareholders via an RIS.

Subject to the results of the market sounding exercise, the Board intends to declare a distribution in specie of:

- the beneficial interest in the Distribution Shares; and
- the right to receive the legal title to the Distribution Shares following the end of the Lock-in Period.

The Company plans to use an external agent to establish a trust over the legal interest in the Distribution Shares for the duration of the Lock-In Period, pursuant to a nominee arrangement. The intention is that the agent will transfer legal title to the Distribution Shares following the end of the Lock-In Period.

Shareholders should note that the Board does not intend to declare the Distribution in Specie until the Fundraising process is near conclusion. The Fundraising process is in its early stages and so the Fundraising and Admission may or may not occur. The Distribution in Specie therefore may or may not occur. In the event that the Distribution in Specie does not occur Verici Dx Limited will remain within the Renalytix Group and continue to be operated as a subsidiary of the Company. The reserves created by the Capital Reduction which were intended to be used in the implementation of the Distribution in Specie will be used, as with the balance of the reserves, to facilitate the future consideration of payment of dividends to Shareholders and the possible redemption or buy back of the Company's shares where desirable.

Full details are set out in [the Circular](#) which has today been posted to Shareholders and is available here: <https://renalytixai.com/investors/company-presentation/> in accordance with AIM Rule 20.

Further details on the Capital Reduction procedure

Under the Act, a company limited by shares may reduce or cancel its share premium account as long as it is not restricted from doing so by its articles of association, by obtaining the approval of its shareholders by special resolution and the confirmation of the Court.

The Company is not restricted in any way by its articles of association from carrying out a reduction of capital and is, therefore, seeking approval of its shareholders to the Capital Reduction. If the Shareholders approve the Resolution at the General Meeting, the Board intends to make an application to the Court to obtain its approval to the Capital Reduction as soon as possible following the General Meeting.

Before it confirms the Capital Reduction, the Court will need to be satisfied that the creditors of the Company at the time of the Capital Reduction (including contingent and prospective creditors) cannot show that there is a real likelihood that the Capital Reduction would result in the Company being unable to discharge those debts or claims when they fall due, or that the creditors are otherwise satisfactorily protected. The Company will address those matters in its evidence to the Court, including seeking the consent of some of the Company's creditors to the Capital Reduction.

Provisional dates have been obtained for the required Court hearings of the Company's application, but they are subject to change and dependent on the Court's timetable. If the hearings go ahead on the provisional dates, the present timetable provides that the final hearing, at which it is hoped that the Court will make an order confirming the Capital Reduction, will take place on 9 June 2020.

The Capital Reduction does not take effect until the Court's order is filed with and registered by Companies House. The Board intends to file the required documentation with Companies House on the business day following the final Court hearing and, subject to compliance with all procedural requirements, Companies House will usually register the documents on the same day. On the present timetable, which is subject to change and dependent on the Court's timetable, this would mean that the Capital Reduction would take effect on 10 June 2020.

Notice of General Meeting

The Capital Reduction and Distribution in Specie are conditional upon, *inter alia*, the Shareholders approving the Resolution at the General Meeting.

In light of the current UK Government's public health advice in response to the COVID-19 outbreak, including to limit travel and public gatherings, and the likelihood that this advice may remain in place at the time of the General Meeting, the Company is holding the General Meeting electronically.

The Circular contains a notice convening the General Meeting to be held electronically at 12.00 p.m. on 15 May 2020 at which the Resolution will be proposed. The Company will provide a facility for Shareholders to join the General Meeting either online or by telephone and there will be an opportunity for Shareholders to ask questions relating to the matters to be dealt with at the General Meeting. In order to facilitate the process, and so that questions can be fully answered at the end of the meeting, the Board would request questions to be submitted in advance, before 5.00 p.m. (BST) on 13 May 2020.

To register for dial-in details and to submit any questions please contact Walbrook PR via email at renalytix@walbrookpr.com or call +44 (0)20 7933 8780.

Shareholders should note that, unless the Capital Reduction is approved at the General Meeting, the spin-out of FractalDx cannot take place.

Recommendation

The Directors consider that the Capital Reduction and Distribution in Specie will promote the success of the Company for the benefit of the

Shareholders as a whole. Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Resolution, as the Directors intend to do in respect of their own beneficial holdings of 16,645,157 Ordinary Shares, representing approximately 28.01 per cent. of the Company's entire issued share capital as at the date of this document.

Enquiries

Renalytix AI plc

James McCullough, CEO

www.renalytixai.com

Via Walbrook PR

Stifel (Nominated Adviser & Joint Broker)

Tel: 020 7710 7600

Alex Price / Jonathan Senior / Ben Maddison (Investment Banking)

N+1 Singer (Nominated Adviser & Broker)

Tel: 020 7496 3000

Aubrey Powell / James White / George Tzimas (Corporate Finance)

Tom Salvesen / Mia Gardner (Corporate Broking)

Walbrook PR Limited

Paul McManus
Lianne Cawthorne

Tel: 020 7933 8780
renalytix@walbrookpr.com
Mob: 07980 541 893
07584 391 303

About Kidney Disease

Kidney disease is now recognised as a public health epidemic affecting over 850 million people globally. The Centers for Disease Control estimates there that 15% of United States adults or 37 million people currently have kidney disease. It is reported that 9 out of 10 adults with chronic kidney disease do not know they have it and 1 out of 2 people with very low kidney function who are not on dialysis do not know they have CKD*. Kidney disease is referred to as a "silent killer" because it often has no symptoms and can go undetected until a very advanced stage. Each year kidney disease kills more people than breast and prostate cancer. Every day 13 patients die in the United States while waiting for a kidney transplant.

*<https://www.cdc.gov/kidneydisease/publications-resources/2019-national-facts.html>

About RenalytixAI

RenalytixAI is a developer of artificial intelligence-enabled clinical *in vitro* diagnostic solutions for kidney disease, one of the most common and costly chronic medical conditions globally. The Company's products are being designed to make significant improvements in kidney disease diagnosis, transplant management, clinical care, patient stratification for drug clinical trials, and drug target discovery. For more information, visit renalytixai.com