

Morning Note – 19th September 2018

SPINEGUARD

H1 2018 : operating loss reduced by 50%

- Positive impact of the new strategy and related cost structure
- Still on track to reach operating profitability by year-end
- EUR9m financing secured recently: improved financial visibility

Improved economic performance in H1

Following the implementation in 2017 of a new strategy focusing commercial efforts on key countries (to prevent resources dispersion) and the change in the value sharing with the US partner Zavation for the deployment of the Smart Screw in the US, SpineGuard succeeded to post an improved operating loss in H1. Whilst H1 revenue came in at EUR3.6m down 5% vs H1 2017 (on a like-for-like basis), improved gross margin (86.3% vs 86.0%) associated to a significant drop in marketing expenses led to an operating loss of EUR0.84m (vs a loss of EUR1.53m in H1 2017). The improvement in the operations has limited cash consumption in H1 (EUR0.57m). End of June, cash position was EUR0.86m.

Operating profitability end-2018 remains realistic

The figures posted are likely to make investors confident in the ability of the management to continue in the right direction. Efficient cost control as well as improved COGS are expected to allow the group to become EBITDA positive by year-end (over the Q4 period). Management confirmed this objective and works hard to achieve this key milestone.

An improved financial visibility

The two financings secured early September consist of: 1/ The issuance of a EUR6.0m bond facility in substitution of the company's facility from IPF Partners and 2/ A new equity line in the form of a EUR3.0m convertible bond facility with Nice & Green (OCAPI) over a period of 15 months. The line has zero associated warrants. From now on, SpineGuard should have a cash visibility until mid-2020.

Valuation and rating

Despite a real added value for patients and surgeons, the commercial expansion of the Smart Screw launched last October in the US is likely to require more time than initially expected. In the rest of the world, the company focuses its marketing and training support activities toward major commercial partners. The strategic distribution agreement signed with XinRong Medical for China, Hong-Kong and Macao is an example of this strategy. Aside US where the Smart Screw is supposed to gain market share, we anticipate Asia driving growth in the next years. Our DCF model, built on a conservative revenue growth, gives a fair value of EUR3.2/share reflecting the commercial challenge the company is currently facing. Dynamic Surgical Guidance technology is definitively attractive in our view and stock is still undervalued. We remain therefore positive on the dossier and reiterate our BUY recommendation.

Next publication: Q3 revenue, October 11th

France - Medtech

BUY

Fair value (EUR)	3.2
Price (EUR)	1.75
Upside/down side	+82.9%

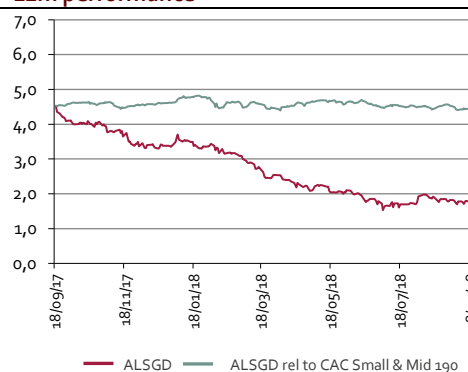
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Stock data (2018-07-11)

ISIN	FR0011464452
Ticker	ALSGD.PA
Price (EUR)	1.75
Market capitalisation (EURm)	10.9
Free float (%)	31.0
Floating capitalisation (EURm)	3.4
Number of shares (,000)	6,214
Average daily volume (3 m)	12,347

12m performance



Change (%)	1 m	3 m	12 m
Absolute	-2.5	-2.8	-61.4
Rel. to CAC SM190	-2.1	0.3	-60.0
Rel. to Next Biotech	-7.4	-7.4	-86.9

Financials (31/12)

EURm	2017	2018E	2019E	2020E
Sales	8.2	7.6	8.3	10.3
EBITDA	-2.7	-1.0	0.2	1.4
EBIT	-3.0	-1.2	0.0	1.1
Net income	-4.1	-1.7	-0.4	1.0
EPS (EUR)	-0.68	-0.28	-0.06	0.96
Net debt	5.0	4.5	3.2	1.6

Key ratios

	2017	2018E	2019E	2020E
EV/Sales	1.9x	1.9x	1.6x	1.1x
EV/EBITDA	na	na	55.3x	8.7x
EV/EBIT	na	na	849.6x	10.5x
PER	na	na	na	10.5x
ROIC	na	na	0%	24%
ROE	na	na	na	na
EV/IC	3.1x	3.1x	2.9x	2.5x
Gearing	-2564%	-326%	-139%	-71%

Profit and Loss

As of 31/12 (EURm)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	4.62	4.44	6.35	7.46	8.17	7.63	8.29	10.30
Change n-1	19.0%	-3.9%	43.1%	17.6%	9.5%	-6.7%	8.7%	24.2%
Other revenues	-	-	-	-	-	-	-	-
Total revenues	4.62	4.44	6.35	7.46	8.17	7.63	8.29	10.30
Gross margin	4.03	3.78	5.36	6.35	6.95	6.50	7.11	8.95
EBITDA	-2.94	-4.26	-3.73	-3.31	-2.66	-1.00	0.24	1.35
Change n-1	2%	-45%	12%	11%	20%	62%	124%	-462%
Depreciation & amortisation	0.23	0.23	0.26	0.33	0.31	0.21	0.22	0.24
Goodwill	-	-	-	-	-	-	-	-
EBIT	-3.15	-4.48	-3.97	-3.63	-2.96	-1.21	0.02	1.11
Change n-1	1%	-42%	11%	9%	18%	59%	101%	-7008%
Net financial income	-0.36	-0.06	0.10	-0.54	-1.16	-0.49	-0.37	-0.15
Minorities	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Net profit before tax	-3.51	-4.54	-3.88	-4.18	-4.13	-1.70	-0.35	0.96
Tax	-	-	-	-	-	-	-	-
Net in come	-3.51	-4.54	-3.88	-4.18	-4.13	-1.70	-0.35	0.96
Change n-1	-8%	-29%	15%	-8%	1%	59%	79%	371%
EPS	-0.82	-1.03	-0.77	-0.82	-0.72	-0.30	-0.06	0.17
EPS fully diluted	-0.82	-1.03	-0.77	-0.75	-0.68	-0.28	-0.06	0.16
Gross margin (% of sales)	87.3%	85.2%	84.5%	85.1%	85.1%	85.2%	85.7%	86.9%
EBITDA (% of sales)	na	na	na	na	na	na	na	na
EBIT (% of sales)	na	na	na	na	na	na	na	na
Net margin (% of sales)	na	na	na	na	na	na	na	na

Cash Flow statement

Au 31/12 (MEUR)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net income	-3.51	-4.54	-3.88	-4.18	-4.13	-1.70	-0.35	0.96
Depreciation and amortisation	0.23	0.23	0.26	0.33	0.31	0.21	0.22	0.24
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Change in WCR	-0.22	-0.07	0.53	-1.01	0.26	0.08	-0.09	-0.28
Others	0.51	1.06	0.50	0.83	1.05	0.83	0.83	0.83
Cash-flow from operations	-2.99	-3.32	-2.60	-4.03	-2.51	-0.59	0.60	1.74
Capex	-0.02	-0.05	-0.20	-0.06	-0.05	-0.11	-0.12	-0.15
Free cash flow	-3.02	-3.37	-2.80	-4.09	-2.56	-0.70	0.48	1.59
Acquisitions	-0.15	-0.05	-0.37	-0.09	-	-	-	-
Divestments	-	-	-	0.01	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Capital increase	6.76	0.79	2.64	0.42	2.21	1.20	0.90	-
Financing(bank and others)	0.62	0.01	2.76	2.87	0.01	-	-	-
Others	-0.14	-1.27	-1.51	-0.54	-0.26	-1.65	-2.18	-1.60
Change in cash over the period	4.08	-3.89	0.72	-1.42	-0.61	-1.15	-0.80	-0.01
Opening cash position	2.31	6.40	2.51	3.23	1.80	1.19	0.04	-0.76
Closing cash position	6.40	2.51	3.23	1.80	1.19	0.04	-0.76	-0.77

Balance sheet

Au 31/12 (MEUR)	2013	2014	2015	2016	2017	2018E	2019E	2020E
Fixed assets	0.05	0.06	0.21	0.18	0.14	0.16	0.19	0.22
Intangible assets	1.22	1.09	1.26	1.11	0.90	0.78	0.65	0.53
Goodwill	3.08	3.08	3.08	3.08	3.08	3.08	3.08	3.08
Financial assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventories	0.44	0.65	0.59	1.02	0.81	0.76	0.82	1.02
Account receivables	0.65	0.68	0.94	1.41	1.38	1.28	1.40	1.73
Other receivables	0.46	0.38	0.54	0.68	0.54	0.59	0.55	0.59
Cash and cash equivalents	6.40	2.51	3.23	1.80	1.19	0.04	-0.76	-0.77
Prepaid expenses	-	-	-	-	-	-	-	-
Other non-current assets	0.13	0.12	0.06	0.13	0.12	0.12	0.12	0.12
Total assets	12.41	8.56	9.92	9.41	8.15	6.81	6.05	6.54
Equity	8.92	5.77	4.74	1.19	-0.20	-1.39	-2.27	-2.23
Others	-	-	-	-	-	1.65	3.83	5.43
Provisions	0.03	0.04	0.05	0.07	0.04	0.04	0.04	0.04
Financial debt	2.25	1.45	2.99	6.00	6.23	4.58	2.41	0.81
Account payables	0.69	0.72	1.10	1.19	1.04	0.97	1.05	1.31
Other debts	0.53	0.58	1.04	0.96	0.98	0.96	1.00	1.19
Deferred income and other liabilities	-	-	-	-	0.06	-	-	-
Total liabilities	12.41	8.56	9.92	9.41	8.15	6.81	6.05	6.54

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