

Morning Note – 16th October 2019

SPINEGUARD

Q3 revenues : mitigate figures

- Q3 impacted by a weak performance in the US...
- ... but the new local organisation makes breakeven a reality
- Future definitively dependent on deals

US face temporary concerns

SpineGuard posted yesterday after market Q3 revenues of EUR1.72m, down -8% from Q3 2018. 1,186 units were sold in Q3 in the US (-12%) mainly due to an unsurprisingly erosion of PediGuard Classic sales. However, the situation becomes more exciting when looking at the performance of the more recently launched devices (Smart Screw and PediGuard Threaded) that deliver a solid growth over the period. In the rest of world, we note a jump in the units sold (953 vs 525 in Q3 2018) to be linked to new orders from China. For the 9m period, total revenues fell to EUR5.17m (-6% compared to the same period in 2018). New ranges of products completed by increasing revenues from the dental partner (ConfiDent ABC) record a +39% growth YTD restoring hope in the technology adoption in the targeted markets.

Topline weakness has a limited impact on profitability

The new set-up in the US was expected to reduce the burn rate. As said by the management in the press release, the new organization and its limited related operational costs made achievable the return to profitability in Q3 in the US. It is a bit early to anticipate that the US subsidiary will positively contribute in the profitability of the group in a lasting manner. We note however that the group has ended its transition. From now and according to the new cost structure, any additional revenue will positively impact the P&L. We see therefore the launch in H1 2020 of the new device DSG connect (wireless pad allowing for the surgeon the visualization of the audible signal) as a very positive news. This new device is likely to consolidate the existing position as well as making the PediGuard range generate a new gain of interest among surgeons.

Valuation and rating

The figures posted yesterday, if not very exciting, are in line with our expectations. There is so far no reason to change our scenario. Situation remains tight and cash position is definitively concerning. The group is currently exploring value creation options with potential partners. There is no doubt that DSG technology deployment requires a strong support (in any of the markets opened to date or in the future like robotics). We expect the partnering ongoing process to deliver good news. Whilst uncertainty on the dossier is clear, we believe DSG technology is likely to find its place in the portfolio of medtech players. Recovery remains realistic. Current price doesn't integrate this scenario making the stock attractive for investors ready to play the story. We reiterate our Buy rating and TP of EUR1.0.

Next publication: Q4 revenues, January 2020 (to be determined)

France - Medtech

BUY

Fair value (EUR)	1.00
Price (EUR)	0.251
Upside/down side	+298%

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Stock data (2019-10-15)

ISIN	FR0011464452
Ticker	ALSGD.PA
Price (EUR)	0.251
Market capitalisation (EURm)	2.0
Free float (%) est.	73.0
Floating capitalisation (EURm)	1.5
Number of shares (,000)	8,076
Average daily volume (3 m)	95,422

12m performance



Change (%)	1 m	3 m	12m
Absolute	-5.3	-18.8	-81.1
Rel. to CAC SM190	-5.3	-14.6	-79.8
Rel. to Next Biotech	+0.0	-5.2	-94.1

Financials (31/12)

EURm	2018	2019E	2020E	2021E
Sales	7.6	7.2	7.6	8.5
EBITDA	-0.9	-0.6	-0.0	0.7
EBIT	-1.1	-0.8	-0.2	0.4
Net income	-2.3	-1.3	-0.5	0.4
EPS (EUR)	-0.31	-0.11	-0.04	0.04
Net debt	5.0	5.4	5.4	2.9

Key ratios

	2018	2019E	2020E	2021E
EV/Sales	0.9x	1.1x	1.1x	0.7x
EV/EBITDA	Na	na	na	Na
EV/EBIT	Na	na	na	Na
PER	Na	na	na	na
ROIC	Na	na	na	na
ROE	Na	na	na	na
EV/IC	1.5x	1.8x	1.8x	1.3x
Gearing	-94%	-87%	-62%	-33%

Profit and Loss

As of 31/12 (EURm)	2014	2015	2016	2017	2018	2019E	2020E	2021 ^E
Sales	4.44	6.35	7.46	8.17	7.58	7.17	7.63	8.50
Change n-1	-3.9%	43.1%	17.6%	9.5%	-7.3%	-5.3%	6.4%	11.3%
Other revenues	-	-	-	-	-	-	-	-
Total revenues	4.44	6.35	7.46	8.17	7.58	7.17	7.63	8.50
Gross margin	3.78	5.36	6.35	6.95	6.55	6.22	6.68	7.52
EBITDA	-4.26	-3.73	-3.31	-2.66	-0.86	-0.59	-0.02	0.65
Change n-1	-45%	12%	11%	20%	68%	32%	96%	2723%
Depreciation & amortisation	0.23	0.26	0.33	0.31	0.26	0.22	0.22	0.23
Goodwill	-	-	-	-	-	-	-	-
EBIT	-4.48	-3.97	-3.63	-2.96	-1.11	-0.79	-0.24	0.44
Change n-1	-42%	11%	9%	18%	63%	28%	70%	285%
Net financial income	-0.06	0.10	-0.54	-1.16	-1.21	-0.45	-0.24	-0.02
Minorities	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Net profit before tax	-4.54	-3.88	-4.18	-4.13	-2.32	-1.25	-0.47	0.42
Tax	-	-	-	-	-0.02	-	-	-
Net in come	-4.54	-3.88	-4.18	-4.13	-2.33	-1.25	-0.47	0.42
Change n-1	-29%	15%	-8%	1%	43%	47%	62%	188%
EPS	-1.03	-0.77	-0.82	-0.72	-0.34	-0.12	-0.05	0.04
EPS fully diluted	-1.03	-0.77	-0.75	-0.68	-0.38	-0.11	-0.04	0.04
Gross margin (% of sales)	85.2%	84.5%	85.1%	85.1%	86.5%	86.7%	87.6%	88.4%
EBITDA (% of sales)	na	na	na	na	nm	nm	nm	nm
EBIT (% of sales)	na	na	na	na	nm	nm	nm	nm
Net margin (% of sales)	na	na	na	na	nm	nm	nm	nm

Cash Flow statement

Au 31/12 (MEUR)	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net income	-4.54	-3.88	-4.18	-4.13	-2.33	-1.25	-0.47	0.42
Depreciation and amortisation	0.23	0.26	0.33	0.31	0.26	0.22	0.22	0.23
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Change in WCR	-0.07	0.53	-1.01	0.26	-0.08	0.20	-0.26	-0.04
Others	1.06	0.50	0.83	1.05	1.49	1.16	0.94	0.73
Cash-flow from operations	-3.32	-2.60	-4.03	-2.51	-0.67	0.33	0.44	1.33
Capex	-0.05	-0.20	-0.06	-0.05	-0.05	-0.04	-0.05	-0.05
Free cash flow	-3.37	-2.80	-4.09	-2.56	-0.72	0.28	0.39	1.28
Acquisitions	-0.05	-0.37	-0.09	-	-	-	-	-
Divestments	-	-	0.01	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Capital increase	0.79	2.64	0.42	2.21	1.68	0.50	0.20	-
Financing(bank and others)	0.01	2.76	2.87	0.01	4.64	-	-	-
Others	-1.27	-1.51	-0.54	-0.26	-5.73	-0.32	-2.36	-2.53
Change in cash over the period	-3.89	0.72	-1.42	-0.61	-0.13	0.47	-1.77	-1.26
Opening cash position	6.40	2.51	3.23	1.80	1.19	1.05	1.52	-0.26
Closing cash position	2.51	3.23	1.80	1.19	1.06	1.52	-0.26	-1.51

Balance sheet

Au 31/12 (MEUR)	2014	2015	2016	2017	2018	2019E	2020E	2021E
Fixed assets	0.06	0.21	0.18	0.14	0.12	0.09	0.06	0.03
Intangible assets	1.09	1.26	1.11	0.90	0.72	0.58	0.45	0.31
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	0.65	0.59	1.02	0.81	0.84	0.71	0.76	0.84
Account receivables	0.68	0.94	1.41	1.38	1.32	1.21	1.28	1.43
Other receivables	0.38	0.54	0.68	0.54	0.59	0.55	0.52	0.55
Cash and cash equivalents	2.51	3.23	1.80	1.19	1.06	1.53	-0.25	-1.50
Prepaid expenses	-	-	-	-	-	-	-	-
Other non-current assets	0.12	0.06	0.13	0.12	0.13	0.13	0.13	0.13
Total assets	8.56	9.92	9.41	8.15	7.86	7.88	6.04	4.88
Equity	5.77	4.74	1.19	-0.20	-5.35	-6.24	-8.72	-8.84
Others	-	-	-	-	4.86	5.18	7.54	10.08
Provisions	0.04	0.05	0.07	0.04	0.04	0.04	0.04	0.04
Financial debt	1.45	2.99	6.00	6.23	6.07	6.97	5.16	1.41
Account payables	0.72	1.10	1.19	1.04	1.16	0.91	0.97	1.08
Other debts	0.58	1.04	0.96	0.98	0.81	0.76	0.77	0.85
Deferred income and other liabilities	-	-	-	0.06	0.26	0.26	0.26	0.26
Total liabilities	8.56	9.92	9.41	8.15	7.86	7.88	6.04	4.88

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