

## Morning Note – 18<sup>th</sup> March 2019

### SPINEGUARD

FY results 2018: improved cost structure

- EBITDA positive in Q4, key milestones achieved in 2018
- 2019: building up the future in a challenging environment
- Signing new partnerships has become a priority: Hold vs Buy

**Group reorganization and cost control: positive impact on the P&L**  
SpineGuard released last Friday its FY results showing a significant improvement of the cost structure. Despite a -7% drop in revenues in 2018 (already discussed on 25/01), the group managed to post a reduced loss. Operating loss came to EUR1.1m compared to EUR2.5m last year. This reflects not only a slight improvement of the gross margin (86.5% vs 85.1%) to be linked to continuous optimization of the manufacturing costs but also a significant decrease in operating expenses following the downsizing performed in 2017. Savings were made at all levels of the group (marketing, G&A and R&D), associated to a focus on key countries to prevent resources dispersion in non-profitable geographic areas. As a result, the group became EBITDA positive in Q4 and close to the breakeven in H2 2018. The group remains under pressure on the cash position and the cost and restructuring of the debt had a significant impact in 2018 (financial cost of EUR1.2m) leading to a net loss of EUR2.3m (vs EUR4.1m in 2017). The figures released are roughly in line with our expectations, except the financial result overpassing our estimates (non-recurring costs of the debt restructuring).

#### Opportunities in the dental space confirmed

Through the partnership signed with Confident ABC (a subsidiary of Adin Group), SpineGuard opened a new window for Dynamic Surgical Guidance (DSG) technology. 2018 has been a crucial year to validate that SpineGuard' approach was likely to bring added value in dental surgery (prevent breaches and neural damages in upper jaw). 2018 has been a pivotal year with the CE mark of a first generation of DSG-enabled dental devices and the launch of clinical validation (results expected in 2019). The data gathered in the ongoing clinical trials will support future marketing of a second range of devices, fully adapted to dental surgeon's needs (and matching with market expectations).

#### DSG connect and robotics: new wave of products and opportunities

SpineGuard is currently developing an improved version of PediGuard (on the monitoring side) with the adding to the audio feedback of a visual signal (Bluetooth like connection to a tablet allowing visualisation of the conductivity signal). This new version is likely to make some surgeons more comfortable with PediGuard and is expected to support the device adoption. With R&D programs in robotics (collaboration with Sorbonne University), SpineGuard is clearly betting on the integration of DSG technology in robots allowing efficient retro control loops in drilling phases (in order to stop the robots when approaching sensitive tissues/zones). A first proof of concept was made in 2018. With such technological asset, we remain confident in the capacity to generate interest among robotics players.

### France - Medtech

HOLD (vs BUY)

Fair value (EUR)	1.60 (3.20)
Price (EUR)	0.628
Upside/down side	+154.8%

Lionel Labourdette, PhD, MBA

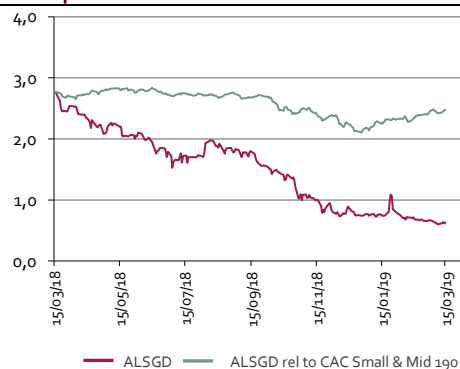
lionel@biostrategic-research.com

+33 617 965 019

#### Stock data (2019-03-15)

ISIN	FR0011464452
Ticker	ALSGD.PA
Price (EUR)	0.628
Market capitalisation (EURm)	4.2
Free float (%)	31.0
Floating capitalisation (EURm)	1.3
Number of shares (,000)	6,725
Average daily volume (3 m)	24,779

#### 12m performance



Change (%)	1 m	3 m	12m
Absolute	-7.6	-23.2	-77.3
Rel. to CAC SM190	-11.2	-35.1	-66.7
Rel. to Next Biotech	-8.8	-26.0	-75.3

#### Financials (31/12)

EURm	2017	2018E	2019E	2020E
Sales	8.2	7.6	7.6	8.1
EBITDA	-2.7	-0.9	-0.9	-0.7
EBIT	-3.0	-1.1	-1.1	-1.0
Net income	-4.1	-2.3	-1.8	-1.7
EPS (EUR)	-0.68	-0.38	-0.30	-0.28
Net debt	5.0	5.2	5.2	6.0

#### Key ratios

	2017	2018E	2019E	2020E
EV/Sales	1.1X	1.2X	1.2X	1.2X
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	2.3X	1.9X	1.9X	2.2X
Gearing	-256.4%	-326%	-120%	-88%

### PediGuard: access to the market likely to become more delicate

DSG is an undisputed technology whose benefits in spine surgery are, year after year, reinforced by extended clinical data (new scientific publications to come). That said, commercial expansion remains a real challenge for SpineGuard, especially in a period where strong efforts are made by large Medtech players to harvest the fruits of their “wide offer” positioning (from implant to surgical devices or robotics). The commercial battle is more and more delicate for small players offering a limited range of devices, whatever the quality or benefits of this later. In a period where Medtech well-known actors like Medtronic or Globus use an aggressive approach to install surgical platforms in hospitals, defending PediGuard’ franchise has become challenging and SpineGuard is clearly suffering from this competition. We see therefore the future performance for the historical range become unclear in the US (main market). In the rest of the world, expanding volumes is likely to be concerning as well (investors have to keep in mind that Average Selling Price in the ROW is significantly lower than in the US requiring larger volumes to make comparable profits).

### Smart Screw: future is today depending on new commercial partnerships

2018 was a year of market testing for this new concept in spine surgery. With the US partner Zavation, SpineGuard succeeded in convincing a few of spine surgeons. Satisfaction was clear but developing the sales is likely to face a similar hurdle as the historical range of PediGuard’ devices faces. Smart Screw’ future lies definitively in finding strategic partners to get access to a larger network of surgeons and hospitals. SpineGuard’ management is aware of this urgent need and all efforts are made in this way.

### New model assumptions: adopting a conservative scenario

With current questioning on the capacity 1/ to defend and/or expand the franchise of PediGuard and 2/ to accelerate the penetration of the Smart Screw, we see today our previous scenario unlikely. We have therefore adjusted our figures to match better with the competitive environment (indirect competition from large Medtech players) and the current lack of well-sized partner to develop the Smart Screw sales. The new scenario sees 2019E with stable revenues, before dental applications deliver some royalties streams (from 2020E).

#### Sales forecast – Estimates as of December 2018 (EURm)

		2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
PediGuard		3.88	4.62	4.44	6.35	7.46	8.17	7.48	7.65	7.94	8.37
	Change n-1	+29.1%	+19.0%	-3.9%	+43.0%	+17.6%	+9.5%	-8.5%	+2.2%	+3.8%	+5.5%
Smart Screw		-	-	-	-	-	-	0.10	0.55	2.26	4.95
	Change n-1								+474%	+315%	+119%
New projects (dental)		-	-	-	-	-	0.05	0.05	0.10	0.10	0.20
	Change n-1							+0%	+100%	+0%	+100%
<b>Total</b>		<b>3.88</b>	<b>4.62</b>	<b>4.44</b>	<b>6.35</b>	<b>7.46</b>	<b>8.17</b>	<b>7.63</b>	<b>8.29</b>	<b>10.30</b>	<b>13.52</b>
	Change n-1	+29.1%	+19.0%	-3.9%	+43.0%	+17.6%	+9.5%	-6.7%	+8.7%	+24.2%	+31.3%

Source: BioStrategic Research

#### Sales forecast – New scenario as of March 2019 (EURm)

		2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
PediGuard		3,88	4,62	4,44	6,35	7,46	8,17	7,38	7,0	6,58	6,24
	Change n-1	+29,1%	+19,0%	-3,9%	+43,0%	+17,6%	+9,5%	-8,4%	-5,1%	-6,1%	-5,1%
Smart Screw		-	-	-	-	-	-	0,10	0,43	1,30	2,37
	Change n-1								+330%	+201%	+82%
New projects (dental)		-	-	-	-	-	0,05	0,10	0,20	0,20	0,30
	Change n-1							+100%	+100%	+0%	+50%
<b>Total</b>		<b>3,88</b>	<b>4,62</b>	<b>4,44</b>	<b>6,35</b>	<b>7,46</b>	<b>8,17</b>	<b>7,58</b>	<b>7,63</b>	<b>8,07</b>	<b>8,91</b>
	Change n-1	+29,1%	+19,0%	-3,9%	+43,0%	+17,6%	+9,5%	-7,3%	+0,8%	+5,8%	+10,4%

Source: BioStrategic Research

### **Financial situation**

With a cash position of EUR1.1m at December 31<sup>st</sup>, SpineGuard' financial visibility remains limited. An added financing of EUR2.8m (convertible bonds) is available and will support the group' need in financing for 12 to 18 months. However, any significant drop in sales is likely to put the group in real financial concerns.

### **Valuation and rating**

The figures released do not hide any bad surprise and confirm the ability of the management to adapt to a delicate context. Our revised model takes into account a period of uncertainty around PediGuard and a moderate ramp-up of Smart Screw sales. We have also made conservative assumptions for the contribution to the revenues from the dental usages of DSG technology. At this stage, we do not anticipate any royalties' streams from DSG enabled robots. These new assumptions have a direct impact on the operating profit: we expect now the group to post operating losses for the two next years. This scenario will be revised as soon as the group will sign new deals. The equity story is therefore fully dependent on such announcements.

Our valuation model is directly impacted by the decrease of our sales forecast. The postponing of a sustainable profitability has also an impact on the future cash flow. Our new fair value (DCF) comes therefore at EUR1.6/share (from 3.2).

DSG remains a disruptive technology that will meet surgeons (and patients) expectations. Given some short-term uncertainties and despite the significant discount of the current price compared to our Fair Value, we prefer to adopt temporarily a cautious rating and downgrade from BUY to **HOLD**.

Next publication: Q1 sales, 11th, April 2019

## Profit and Loss

As of 31/12 (EURm)	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>Sales</b>	<b>4.62</b>	<b>4.44</b>	<b>6.35</b>	<b>7.46</b>	<b>8.17</b>	<b>7.58</b>	<b>7.63</b>	<b>8.07</b>
Change n-1	19.0%	-3.9%	43.1%	17.6%	9.5%	-7.3%	0.8%	5.8%
Other revenues	-	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>4.62</b>	<b>4.44</b>	<b>6.35</b>	<b>7.46</b>	<b>8.17</b>	<b>7.58</b>	<b>7.63</b>	<b>8.07</b>
Gross margin	4.03	3.78	5.36	6.35	6.95	6.55	6.55	7.00
<b>EBITDA</b>	<b>-2.94</b>	<b>-4.26</b>	<b>-3.73</b>	<b>-3.31</b>	<b>-2.66</b>	<b>-0.90</b>	<b>-0.91</b>	<b>-0.74</b>
Change n-1	2%	-45%	12%	11%	20%	66%	-1%	18%
Depreciation & amortisation	0.23	0.23	0.26	0.33	0.31	0.21	0.22	0.23
Goodwill	-	-	-	-	-	-	-	-
<b>EBIT</b>	<b>-3.15</b>	<b>-4.48</b>	<b>-3.97</b>	<b>-3.63</b>	<b>-2.96</b>	<b>-1.11</b>	<b>-1.13</b>	<b>-0.98</b>
Change n-1	1%	-4.2%	11%	9%	18%	63%	-2%	14%
Net financial income	-0.36	-0.06	0.10	-0.54	-1.16	-1.21	-0.70	-0.70
Minorities	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
<b>Net profit before tax</b>	<b>-3.51</b>	<b>-4.54</b>	<b>-3.88</b>	<b>-4.18</b>	<b>-4.13</b>	<b>-2.31</b>	<b>-1.83</b>	<b>-1.68</b>
Tax	-	-	-	-	-	-0.02	-	-
<b>Net in come</b>	<b>-3.51</b>	<b>-4.54</b>	<b>-3.88</b>	<b>-4.18</b>	<b>-4.13</b>	<b>-2.33</b>	<b>-1.83</b>	<b>-1.68</b>
Change n-1	-8%	-29%	15%	-8%	1%	43%	22%	8%
EPS	-0.82	-1.03	-0.77	-0.82	-0.72	-0.41	-0.32	-0.29
EPS fully diluted	-0.82	-1.03	-0.77	-0.75	-0.68	-0.38	-0.30	-0.28
Gross margin (% of sales)	87.3%	85.2%	84.5%	85.1%	85.1%	86.5%	85.8%	86.7%
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
<b>Net income</b>	<b>-3.51</b>	<b>-4.54</b>	<b>-3.88</b>	<b>-4.18</b>	<b>-4.13</b>	<b>-2.33</b>	<b>-1.83</b>	<b>-1.68</b>
Depreciation and amortisation	0.23	0.23	0.26	0.33	0.31	0.21	0.22	0.23
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Change in WCR	-0.22	-0.07	0.53	-1.01	0.26	0.08	-0.01	-0.06
Others	0.51	1.06	0.50	0.83	1.05	0.83	0.83	0.83
<b>Cash-flow from operations</b>	<b>-2.99</b>	<b>-3.32</b>	<b>-2.60</b>	<b>-4.03</b>	<b>-2.51</b>	<b>-1.21</b>	<b>-0.79</b>	<b>-0.68</b>
Capex	-0.02	-0.05	-0.20	-0.06	-0.05	-0.11	-0.11	-0.12
<b>Free cash flow</b>	<b>-3.02</b>	<b>-3.37</b>	<b>-2.80</b>	<b>-4.09</b>	<b>-2.56</b>	<b>-1.32</b>	<b>-0.90</b>	<b>-0.80</b>
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
<b>Change in cash over the period</b>	<b>4.08</b>	<b>-3.89</b>	<b>0.72</b>	<b>-1.42</b>	<b>-0.61</b>	<b>-1.77</b>	<b>-2.18</b>	<b>-2.40</b>
Opening cash position	2.31	6.40	2.51	3.23	1.80	1.19	-0.58	-2.76
Closing cash position	6.40	2.51	3.23	1.80	1.19	-0.58	-2.76	-5.16

## 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	0.18	0.19
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	0.75	0.76	0.80
Account receivables	0.65	0.68	0.94	1.41	1.38	1.27	1.28	1.36
Other receivables	0.46	0.38	0.54	0.68	0.54	0.59	0.54	0.55
Cash and cash equivalents	6.40	2.51	3.23	1.80	1.19	-0.58	-2.76	-5.16
Prepaid expenses	-	-	-	-	-	-	-	-
Other non-current assets	0.13	0.12	0.06	0.13	0.12	0.12	0.12	0.12
<b>Total assets</b>	<b>12.41</b>	<b>8.56</b>	<b>9.92</b>	<b>9.41</b>	<b>8.15</b>	<b>6.17</b>	<b>3.86</b>	<b>1.47</b>
Equity	8.92	5.77	4.74	1.19	-0.20	-2.02	-4.32	-6.81
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	0.96	0.97	1.03
Other debts	0.53	0.58	1.04	0.96	0.98	0.95	0.94	0.98
Deferred income and other liabilities	-	-	-	-	0.06	-	-	-
<b>Total liabilities</b>	<b>12.41</b>	<b>8.56</b>	<b>9.92</b>	<b>9.41</b>	<b>8.15</b>	<b>6.17</b>	<b>3.86</b>	<b>1.47</b>

**IMPORTANT INFORMATION**

**Responsibility for this publication**

This publication has been prepared under the only responsibility of BioStrategic Partners.

**Recipient**

This publication is exclusively designed for "Eligible Counterparties" or "Business Customers". It is not designed to be distributed or transmitted, directly or indirectly, to "Retail Customers".

**Absence of investment advice**

This publication has been produced for information only and does not represent investment advice, given that it has been prepared without knowledge of the financial situation, asset position or any other personal circumstance of the persons who may receive it.

**Absence of buy or sell offering of financial instruments**

This publication does not represent an offering or an incentive to buy or sell the financial instruments outlined in it.

**Reliability of information**

Every precaution has been taken by Biostrategic Partners to ensure that the information contained in this publication come from sources considered reliable. Unless otherwise specifically indicated in this publication, all opinions, estimations and forecasts given, are those of Biostrategic Partners at that date and may be revised without prior notice.

**Exemption from liability**

Neither Biostrategic Partners nor SwissLife Banque Privée shall be liable for any damage that may result from the incorrect or incomplete nature of this publication. Neither Biostrategic Partners or SwissLife Banque Privée is not liable for any investment decisions, regardless of their nature, made by the users of this publication on its basis.

**Transfer and distribution of this publication**

This document was sent, prior to its publication, to the issuer of the financial instruments to which it refers. This document may not be reproduced, distributed or published in whole or in part without the prior written consent of Biostrategic Partners and SwissLife Banque Privée.

**Warning concerning performance**

Investors should note that any income from financial instruments can fluctuate and that prices can fall as well as rise. Past and simulated performance does not guarantee future performance.

**Detection of potential conflicts of interest**

Company	Potential conflicts of interest with Biostrategic Partners						
	a)	b)	c)	d)	e)	f)	g)
<b>SPINEGUARD</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>Yes</b>	<b>No</b>	<b>No</b>

*The analyst has a familial relationship with a founding partner of IPF Partners who holds SpineGuard' bonds with warrants attached*

- a) Biostrategic Partners has participated or is participating, either as lead manager or member of an investment or guarantee syndicate for a financial transaction, either as advisor of a public offering over the last twelve months or as Listing Sponsor of the company.
- b) Biostrategic Partners holds an investment stake greater than or equal to 5% in the capital of the company under analysis.
- c) The company who is the subject of this analysis holds an investment stake greater than or equal to 5% in Biostrategic Partners.
- d) Biostrategic Partners and/or one of its affiliates is/are liquidity provider(s) or market maker(s) for (one of) the company's financial instrument/s.
- e) Biostrategic Partners has agreed with the company to provide a service of production and distribution of analysis regarding the company.
- f) Biostrategic Partners has modified its conclusions after notifying the company before its distribution of this analysis.
- g) The person/s responsible for the analysis, a director or a member of the Board of Directors of Biostrategic Partners is a manager, director or member of the Board of Directors of the company.

Company	Potential conflicts of interest with SwissLifeBanquePrivée						
	a)	b)	c)	d)	e)	f)	g)
<b>SPINEGUARD</b>	<b>Yes</b>	<b>No</b>	<b>No</b>	<b>Yes</b>	<b>No</b>	<b>No</b>	<b>No</b>

- a) SwissLife Banque Privée has participated or is participating, either as lead manager or member of an investment or guarantee syndicate for a financial transaction, either as advisor of a public offering over the last twelve months or as Listing Sponsor of the company.
- b) SwissLife Banque Privée holds an investment stake greater than or equal to 5% in the capital of the company under analysis.
- c) The company who is the subject of this analysis holds an investment stake greater than or equal to 5% in SwissLife Banque Privée.
- d) SwissLife Banque Privée and/or one of its affiliates is/are liquidity provider(s) or market maker(s) for (one of) the company's financial instrument/s.
- e) SwissLife Banque Privée has agreed with the company to provide a service of production and distribution of analysis regarding the company.
- f) SwissLife Banque Privée has modified its conclusions after notifying the company before its distribution of this analysis.
- g) The person/s responsible for the analysis, a director or a member of the Board of Directors of SwissLife Banque Privée is a manager, director or member of the Board of Directors of the company.

**Swiss Life Banque Privée**

Société Anonyme au capital de 37.092.080 €  
Code établissement bancaire n°11 238  
RCS Paris 382 490 001  
7. place Vendôme - F 75041 Paris Cedex 01 – France  
Tél. : +33 1 53 29 14 14

**BioStrategic Partners SAS**

Société par Actions Simplifiée au capital de 30. 000 €  
RCS Paris 530 430 487  
140 bis. rue de Rennes - F 75006 Paris – France  
Tél. : +33 6 17 96 50 19

BioStrategic Research est une marque déposée de BioStrategic Partners SAS