

Morning Note – 19th September 2019

SPINEGUARD

HY results : operating profit improvement

- H1: a strict cost control compensates sales decline
- Operating loss: break-even to become a reality in Q3-Q4
- Partnerships: good news to expect?

Big attention paid to expenses leads to operational improvement

SpineGuard reported mid-July H1 sales showing a slight decline (-5%) mainly due to a counter performance in the US where accessing to first tier hospitals has become quite unfeasible for small actors like SpineGuard and/or Zavation (hospitals have shrunk their suppliers list and prefer to negotiate discounts for large volumes with groups offering a wide range of products and devices). We had already noted that average selling prices did not erode in H1 allowing a satisfying gross margin (84.6% vs 86.3% in H1 2018). Drop in marketing expenses (EUR1.9m vs EUR2.4m) had a direct impact on the operating loss that came to EUR0.50m (vs EUR0.84m in H1 2018). Bottom line is clearly impacted by the cost of the debt (EUR0.32m in H1). Reported net loss in H1 came to EUR0.80m (EUR 1.09m in H1 2018). Cash position remains tight (EUR1.0m as of June 30th). Published visibility is April 2020.

New organization in the US expected to fully deliver in H2

With the new set-up in the US, the group expects to reduce significantly the burn rate (3 people left the company + transfer of the operations from San Francisco to Boulder, Colorado). This new cost structure is likely to have a positive impact in H2. With stable revenues expected in H2 the group is supposed to limit the loss over the period, making our scenario for 2019E definitively realistic.

Deals: process underway

In order to support the commercial expansion and the progress of its R&D projects (new DSG-enabled devices, robotics) SpineGuard has to find financial resources. The solution lies in signing deals with commercial partners and/or with Medtech devices/equipment developers willing to plug DSG technology in innovative devices. The management has initiated a deal process with a US-based boutique (Healthios). This requires time (teasing, due diligences...). There is no doubt that SpineGuard' technological assets generate interest but the visibility on the first announcement remains unclear. A conservative scenario would anticipate good news in H1 2020.

Valuation and rating

The figures posted yesterday night do not hide any bad surprise. Cash situation is concerning and renegotiation of debt reimbursement might help in postponing cash-out. We do not see any reasons to adapt our model that sees operational break-even in 2020E. However, new shares issuance in H1 has a dilutive impact on our target price that comes to EUR1.0 (vs EUR1.30). The current market capitalisation is disconnected from DSG technology core value. We remain positive on the dossier and confident in the recovery. Buy.

Next publication: Q3 revenues, 15th October 2019 (after market)

France - Medtech

BUY

Fair value (EUR)	1.00 (1.30)
Price (EUR)	0.271
Upside/down side	+269%

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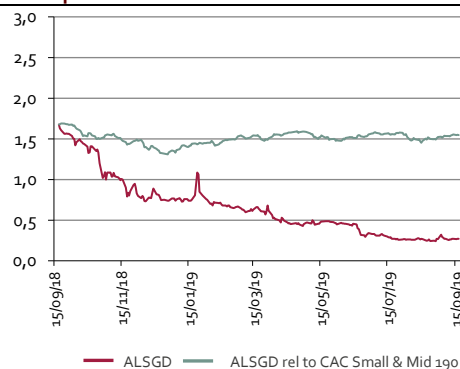
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Stock data (2019-09-18)

ISIN	FR0011464452
Ticker	ALSGD.PA
Price (EUR)	0.271
Market capitalisation (EURm)	2.2
Free float (%) est.	75.0
Floating capitalisation (EURm)	2.0
Number of shares (,000)	10,364
Average daily volume (3 m)	18,490

12m performance



Change (%)	1 m	3 m	12m
Absolute	+8.4	-30.0	-83.8
Rel. to CAC SM190	+5.6	-30.0	-76.1
Rel. to Next Biotech	+12.2	-39.1	-91.4

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	1.2x	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	1.9x	1.3x
Gearing	-94%	-87%	-62%	-33%

Profit and Loss

As of 31/12 (EURm)	2014	2015	2016	2017	2018	2019E	2020E	2021E
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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