

Morning Note – 25th March 2020

SPINEGUARD

FY results: close to a positive operating profit

- Good cost control balance declining revenues
- Progresses in R&D and in the search of partners
- Safeguard proceedings: a wise choice

Operating profitability target reached in H2

The management of SpineGuard had displayed the ambition to reach operational break even at the end of 2019. Despite a decline in turnover (-14%), reflecting a shift in the product mix (smart screw and PediGuard "Threaded" for minimally invasive surgery) and marketing efforts in a limited number of geographic areas, the group posted full year results the last week in marked improvement. If the gross margin drops by 2 points (84.5% vs 86.5%), the new organization and strict cost control make it possible to reduce operating loss very significantly (-EUR0.31m vs -EUR1.1m in 2018). These efforts did not concern R&D, which remained very active in developing robotics projects and enabling validation and launch of DSG Connect (pad allowing the surgeon to provide visual support in addition to the device's audio signal). Financial costs have been reduced but remain very / too high (EUR0.64m vs EUR1.2m in 2018), still having a strong impact on the net result which nevertheless improves very significantly with a loss of -EUR0.67m against EUR2.33m in 2018. The operating cash flow becomes positive but cash position remains very tight (EUR1.3m at December 31, 2019). The published results are generally in line with our expectations.

A year of transition and preparation for the future

One must be honest, the commercial success of the Smart Screw is not there and the penetration of the US market is still very preliminary. The concept of DSG (guided surgery) has yet to be established in the minds of spine surgeons and orthopedists. The supply needs to mature. The new generations of devices will bring additional functionalities and are likely to meet expectations better. This is the case with DSG Connect or future products addressing dental surgery and developed in partnership with Adin. Major progresses have been made, in line with the objectives. The partnership with the Sorbonne has also seen progress in the field of robotics (control of arm movements / devices with retro control loops limiting intrusions into sensitive tissues). This subject is very "hot" for the big players in MedTech who are investing massively in robotic surgery which must ultimately bring increased ease and unequaled precision while protecting patients from the surgeon's fatigue during very long operations duration. SpineGuard had indicated a few months ago that it had asked for the support of a bank to find potential partners and make the most of its DSG technology in its various indications. It seems that the process is progressing well and that actors are currently assessing various technologies. It is always difficult to anticipate a timetable for signing a deal, but it is very likely that announcements will be made in 2020.

France - Medtech

BUY

Fair value (EUR)	1.00
Price (EUR)	0.324
Upside/downside	+209%

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Stock data (2020-03-24)

ISIN	FR0011464452
Ticker	ALSGD.PA
Price (EUR)	0.324
Market capitalisation (EURm)	4.1
Free float (%) est.	73.0
Floating capitalisation (EURm)	3.0
Number of shares (,000)	12,541
Average daily volume (3 m)	320,655

12m performance



Change (%)	1 m	3 m	12m
Absolute	+0.0	+37.3	-46.4
Rel. to CAC SM190	+26.8	+68.0	-22.7
Rel. to Next Biotech	+29.6	+62.1	-55.9

Financials (31/12)

EURm	2018	2019E	2020E	2021E
Sales	7.6	6.8	6.9	8.5
EBITDA	-0.9	0.0	0.1	1.0
EBIT	-1.1	-0.2	-0.1	0.7
Net income	-2.3	-0.6	-0.4	0.7
EPS (EUR)	-0.31	-0.1	0.0	0.1
Net debt	5.0	4.8	4.7	1.9

Key ratios

	2018	2019E	2020E	2021E
EV/Sales	0.9x	1.2x	1.2x	0.6x
EV/EBITDA	na	na	116.2x	5.6x
EV/EBIT	na	na	na	7.3x
PER	na	na	na	4.7x
ROIC	na	na	na	17%
ROE	na	11%	5%	-9%
EV/IC	1.5x	1.8x	1.9x	1.2x
Gearing	-94%	-85%	-58%	-24%

Coronavirus: an inevitable but time-limited impact

The current sanitary crisis is sparing no region of the world. SpineGuard is affected, like almost all companies, all sectors combined. The question is what impact will the current situation have on the group's business. It is obvious in the very short term: all hospitals and clinics have postponed all "not urgent" surgeries. Except trauma, spine interventions are largely postponed to a later date, post coronavirus crisis. Q2 and probably part of the Q3 will therefore be without large orders for SpineGuard. That said, spine surgery is not a convenience surgery and patients must be operated on. We therefore anticipate a temporary "air gap", which will be followed by a strong rebound in demand in connection with the "reservoir" of patients who will have believed during the crisis (existing patients awaiting their intervention to which will be added patients who have reached a stage of pain / incapacity making surgery essential). Q4 and Q1 2021 should therefore be particularly strong.

Ongoing safeguard proceedings

In the absence of strengthening its equity capital through "traditional" capital increases, SpineGuard called on various sources of financing, including loans which had a strong impact on the net result (high rates). This financial burden was not / more sustainable for the group which has reached self-financing capacity. With deadlines near, it was impossible to honor the repayment of the loans. This critical situation necessitated the initiation of a safeguard procedure which aimed at temporarily suspending the repayment of the various loans. It is important to note that the company honors almost all of the other commitments (suppliers, salaries) and that business continuity is ensured. This procedure opens the door to discussion with lenders so that a new schedule is put in place, compatible with the development of the activity and with future flows such that the balance reached in 2019 makes it possible to envisage it. The 6-month backup should continue until the end of 2020 (including the coronavirus crisis effect).

Valuation and rating

The figures published are in line with expectations. The impact of the coronavirus crisis is impossible to define. The break in activity is real, but the rebound that will follow is expected to be very strong. The key question is to know when the pandemic will end. To date, changing our expectations has no real meaning. A drop in turnover is likely, but at the same time, the safeguard procedure protects a significant part of the financial burden. We therefore prefer to wait for more visibility to adapt our model.

What counts above all for SpineGuard today is to pursue developments and move forward in negotiations with partners. The confinement will not facilitate the work of the people in charge of these two missions but a theoretical part is feasible from a distance.

Current stock price (whose trading is suspended for an indefinite period) is disconnected from the intrinsic value of technology, whether in the spine, the dental or even robotics. We therefore remain confident in a positive outcome of this dossier.

Next publication: resumption of the stock trading – undefined date

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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