

Morning Note – 16th September 2020

SPINEGUARD

H1: costs under control in the midst of the Covid storm

- Sales logically impacted by the Covid crisis
- A limited loss thanks to a good cost control
- H2 should see a rebound in activity

Many surgeries canceled during the March-May period

SpineGuard had published its H1 sales figures on July 9th which stood at EUR2.28m, a sharp decline of -34% (-50% for T2 alone). Unsurprisingly, the business was severely impacted by the health crisis which forced the postponement of most spine surgeries in order to free up capacity for Covid patients in the intensive care units of public and private hospitals. China did not generate any sales, with local partners having stocks built up before the lockdown period. For the first 6 months, the group publishes a stable gross margin rate (84.1% vs. 84.6% in H1 2019).

Operational loss under control

The lockdown period imposed a partial activity of the various services. The drop in sales has a direct impact on the variable part of the remuneration of agents in particular. The team limited its travel, promotional operations were fewer leading to an overall reduction in sales costs of around 30%. Administrative functions were less strained and also saw their costs decrease by around -15%. While teleworking made a "documentary" activity possible, the R&D activity was also impacted, notably with the temporary closure of the robotics laboratories at the Sorbonne, resulting in a decrease in R&D spending of around 35%.

The fall in sales was unavoidable, but good cost control limits the current operating loss to -EUR0.56m (vs. -EUR0.41m). The safeguard procedure did however induce non-recurring costs close to EUR0.6m. Management has negotiated with its lenders (Norgine, FEI) to delay the hearing (Commercial Court) to Q4 in return for payment of accrued interest. The financial burden therefore still weighs on the accounts and the net loss comes to -EUR1.39m (vs. -EUR0.81 m).

A gradual return to a "normal" situation

Unlike certain sectors which have experienced temporary reductions in activity that are little or very difficult to recover (leisure, transport, catering / hotels, for example), the deformities of the spine of almost all suffering patients did not disappear during the lockdown period. Spine surgeries have therefore been rescheduled and the need for medical devices (implants and ancillaries) remains intact. Sales should therefore gradually resume, conditioned nevertheless by the capacity of operating theaters and the impact of the disinfection protocols applied to prevent the risk of contamination by Covid-19 (limit the number of operations in a day). There is also uncertainty about the observed rebound in the spread of the virus which has already required mobility restrictions or even total containment decisions as very recently in Israel.

France - Medtech

BUY

| | |
|------------------|--------|
| Fair value (EUR) | 0.85 |
| Price (EUR) | 0.172 |
| Upside/down side | + 394% |

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Stock data (2020-09-15)

| | |
|--------------------------------|--------------|
| ISIN | FR0011464452 |
| Ticker | ALSGD.PA |
| Price (EUR) | 0.172 |
| Market capitalisation (EURm) | 3.6 |
| Free float (%) est. | 85,0 |
| Floating capitalisation (EURm) | 3.1 |
| Number of shares (,000) | 20,848 |
| Average daily volume (3 m) | 152,839 |

12m performance



| Change (%) | 1 m | 3 m | 12m |
|----------------------|-------|-------|-------|
| Absolute | -13.6 | -21.5 | -35.1 |
| Rel. to CAC SM190 | -14.2 | -26.2 | -27.0 |
| Rel. to Next Biotech | -0.2 | -4.0 | -39.5 |

Financials (31/12)

| EURm | 2019 | 2020E | 2021E | 2022E |
|------------|------|-------|-------|-------|
| Sales | 6.8 | 5.4 | 7.9 | 10.0 |
| EBITDA | -0.1 | -0.8 | 0.5 | 1.1 |
| EBIT | -0.4 | -1.0 | 0.2 | 0.8 |
| Net income | -0.7 | -1.7 | -0.1 | 0.6 |
| EPS (EUR) | 0.0 | -0.1 | 0.0 | 0.0 |
| Net debt | 4.7 | 4.9 | 3.1 | 4.4 |

Key ratios

| | 2019 | 2020E | 2021E | 2022E |
|-----------|------|-------|-------|-------|
| EV/Sales | 1.1x | 1.6x | 0.8x | 0.8x |
| EV/EBITDA | na | na | 12.4x | 7.1x |
| EV/EBIT | na | na | 26.9x | 9.7x |
| PER | na | na | na | 6.0x |
| ROIC | -9% | na | 5% | 17% |
| ROE | 12% | 30% | 2% | -6% |
| EV/IC | 1.5x | 1.7x | 1.4x | 1.6x |
| Gearing | -84% | -85% | -49% | -43% |

Alongside the historical ranges, DSG Connect (pad connected to the drilling device and having obtained the CE mark last April) is experiencing a slower launch than anticipated before the health crisis. Access to operating theaters is in fact restricted to healthcare personnel only, making it impossible to accompany surgeons by SpineGuard' teams. While the initial feedback from surgeons is very positive, the dissemination of information and the sharing of experience between physicians are less, especially since certain orthopedic surgery conferences have been canceled or are taking place in "virtual" mode, an organization not very conducive to discussions and other exchanges between suppliers of medical equipment and doctors (this affects all players in the MedTech sector).

Financial visibility

As of June 30, the cash position stands at EUR1.12m. The company has secured a new financing line of EUR2.4m which gives visibility until mid-2022. Without worsening global health situation, we believe the group should return to its objective of operational break even by the end of 2021.

Valuation and rating

When H1 sales were published last July, management mentioned the implementation of rigorous cost management during the lockdown period. The figures released last night are therefore no big surprise. However, the period remains complex for the sector and the activity of many MedTech players depends on that of hospitals. While the situation seems fairly stable in Europe, visibility in the US is not optimal and the resurgence of the virus in some states is likely to impact surgeries schedules. However, suffering patients must be operated on and it will be difficult to continually postpone operations. We therefore remain on our conservative scenario for 2020E with annual sales estimated at EUR5.4m (-21%).

Value creation is obviously dependent on sales of the PediGuard range, but DSG technology can and must become a "must have" in assisted surgery (robots). Developments in this area are progressing very satisfactorily and the collaboration with the Sorbonne is proceeding optimally (version 2 tests in progress). Sooner or later, this intellectual property will be valued with leading MedTech players. The company is making progress in this direction in making contacts with potential partners. Discussions are underway, with support from investment bank Healthios Capital.

The stock trades on levels that are definitively disconnected from the intrinsic value of the assets. A quick sector comparison reveals an abnormal discount that the current situation cannot explain. The safeguard procedure should in fact make it possible to renegotiate the debt repayment schedule. Business continuity is not in any way questioned.

We therefore remain positive on the dossier. We have adjusted our price target to take into account the successive dilutions resulting from the drawdowns of OCAP tranches. It now stands at EUR0.85, representing a potential appreciation of + 394%.

Next communication: Q3 sales – 15th October 2020

Profit and Loss

| As of 31/12 (EURm) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 6.35 | 7.46 | 8.17 | 7.58 | 6.83 | 5.37 | 7.95 | 10.00 |
| Change n-1 | 43.1% | 17.6% | 9.5% | -7.3% | -9.9% | -21.4% | 48.0% | 25.8% |
| Other revenues | - | - | - | - | - | - | - | - |
| Total revenues | 6.35 | 7.46 | 8.17 | 7.58 | 6.83 | 5.37 | 7.95 | 10.00 |
| Gross margin | 5.36 | 6.35 | 6.95 | 6.55 | 5.77 | 4.59 | 7.01 | 8.89 |
| EBITDA | -3.73 | -3.31 | -2.66 | -0.86 | -0.14 | -0.76 | 0.54 | 1.13 |
| Change n-1 | 12% | 11% | 20% | 68% | 84% | -460% | 171% | -108% |
| Depreciation & amortisation | 0.26 | 0.33 | 0.31 | 0.26 | 0.30 | 0.29 | 0.29 | 0.30 |
| Goodwill | - | - | - | - | - | - | - | - |
| EBIT | -3.97 | -3.63 | -2.96 | -1.11 | -0.43 | -1.05 | 0.25 | 0.83 |
| Change n-1 | 11% | 9% | 18% | 63% | 61% | -143% | 124% | -232% |
| Net financial income | 0.10 | -0.54 | -1.16 | -1.21 | -0.64 | -0.69 | -0.36 | -0.23 |
| Minorities | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - |
| Net profit before tax | -3.88 | -4.18 | -4.13 | -2.32 | -1.07 | -1.74 | -0.11 | 0.60 |
| Tax | - | - | - | -0.02 | 0.39 | - | - | - |
| Net in come | -3.88 | -4.18 | -4.13 | -2.33 | -0.69 | -1.74 | -0.11 | 0.60 |
| Change n-1 | 15% | -8% | 1% | 43% | 71% | -154% | 94% | 646% |
| EPS | -0.77 | -0.82 | -0.72 | -0.34 | -0.05 | -0.10 | -0.01 | 0.03 |
| EPS fully diluted | -0.77 | -0.75 | -0.68 | -0.38 | -0.05 | -0.09 | -0.01 | 0.03 |
| Gross margin (% of sales) | 84.5% | 85.1% | 85.1% | 86.5% | 84.5% | 85.5% | 88.1% | 88.9% |
| EBITDA (% of sales) | na | na | na | na | na | na | 7% | 11% |
| EBIT (% of sales) | na | na | na | na | na | na | 3% | 8% |
| Net margin (% of sales) | na | na | na | na | na | na | na | 6% |

Cash Flow statement

| Au 31/12 (MEUR) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net income | -3.88 | -4.18 | -4.13 | -2.33 | -0.69 | -1.74 | -0.11 | 0.60 |
| Depreciation and amortisation | 0.26 | 0.33 | 0.31 | 0.26 | 0.30 | 0.29 | 0.29 | 0.30 |
| Goodwill | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Change in WCR | 0.53 | -1.01 | 0.26 | -0.08 | 0.27 | -0.60 | -0.37 | -0.14 |
| Others | 0.50 | 0.83 | 1.05 | 1.49 | 0.71 | 1.01 | 0.67 | 0.54 |
| Cash-flow from operations | -2.60 | -4.03 | -2.51 | -0.67 | 0.60 | -1.05 | 0.49 | 1.30 |
| Capex | -0.20 | -0.06 | -0.05 | -0.05 | -0.08 | -0.08 | -0.08 | -0.08 |
| Free cash flow | -2.80 | -4.09 | -2.56 | -0.72 | 0.52 | -1.13 | 0.41 | 1.22 |
| Acquisitions | -0.37 | -0.09 | - | - | -0.15 | - | - | - |
| Divestments | - | 0.01 | - | - | - | - | - | - |
| Dividends | - | - | - | - | - | - | - | - |
| Capital increase | 2.64 | 0.42 | 2.21 | 1.68 | 1.75 | - | - | - |
| Financing (bank and others) | 2.76 | 2.87 | 0.01 | 4.64 | 0.22 | - | - | - |
| Others | -1.51 | -0.54 | -0.26 | -5.73 | -1.54 | - | -2.36 | -2.53 |
| Change in cash over the period | 0.72 | -1.42 | -0.61 | -0.13 | 0.80 | -1.13 | -1.96 | -1.31 |
| Opening cash position | 2.51 | 3.23 | 1.80 | 1.19 | 1.05 | 2.01 | 0.88 | -1.08 |
| Closing cash position | 3.23 | 1.80 | 1.19 | 1.06 | 1.85 | 0.88 | -1.08 | -2.39 |

Balance sheet

| Au 31/12 (MEUR) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Fixed assets | 0.21 | 0.18 | 0.14 | 0.12 | 0.63 | 0.56 | 0.48 | 0.40 |
| Intangible assets | 1.26 | 1.11 | 0.90 | 0.72 | 0.72 | 0.59 | 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 | 0.59 | 1.02 | 0.81 | 0.84 | 0.66 | 0.53 | 0.79 | 0.99 |
| Account receivables | 0.94 | 1.41 | 1.38 | 1.32 | 0.95 | 0.90 | 1.34 | 1.68 |
| Other receivables | 0.54 | 0.68 | 0.54 | 0.59 | 0.55 | 0.50 | 0.39 | 0.58 |
| Cash and cash equivalents | 3.23 | 1.80 | 1.19 | 1.06 | 1.40 | 0.27 | -1.68 | -2.99 |
| Prepaid expenses | - | - | - | - | - | - | - | - |
| Other non-current assets | 0.06 | 0.13 | 0.12 | 0.13 | 0.12 | 0.12 | 0.12 | 0.12 |
| Total assets | 9.92 | 9.41 | 8.15 | 7.86 | 8.12 | 6.56 | 4.97 | 4.17 |
| Equity | 4.74 | 1.19 | -0.20 | -5.35 | -5.57 | -5.76 | -6.36 | -10.15 |
| Others | - | - | - | 4.86 | 5.78 | 5.78 | 8.15 | 10.68 |
| Provisions | 0.05 | 0.07 | 0.04 | 0.04 | 0.05 | 0.05 | 0.05 | 0.05 |
| Financial debt | 2.99 | 6.00 | 6.23 | 6.07 | 6.08 | 5.16 | 1.41 | 1.41 |
| Account payables | 1.10 | 1.19 | 1.04 | 1.16 | 1.04 | 0.68 | 1.01 | 1.27 |
| Other debts | 1.04 | 0.96 | 0.98 | 0.81 | 0.62 | 0.52 | 0.60 | 0.80 |
| Deferred income and other liabilities | - | - | 0.06 | 0.26 | 0.11 | 0.11 | 0.11 | 0.11 |
| Total liabilities | 9.92 | 9.41 | 8.15 | 7.86 | 8.12 | 6.56 | 4.97 | 4.17 |

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| SPINEGUARD | No | No | No | No | Yes | No | No |

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| SPINEGUARD | Yes | No | No | Yes | No | No | No |

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