

Morning Note – 26th April 2021

SPINEGUARD

Towards SpineGuard 2.0

- Pandemic: an exit from the tunnel at H2
- Improved visibility on robotics projects
- New sources of value to be taken account

A business still subject to the short-term vagaries of the pandemic

At the global level, the health crisis has spared no area and has had a dramatic impact on the activity and organization of public and private hospitals. The urgent need to welcome Covid patients and the mobilization of critical care units to manage severe cases have logically upset the operating rooms schedules. Numerous surgical procedures deemed to be “non-urgent” have been deprogrammed, leading to an inevitable drop in sales of many medical devices (implants for example). On the sidelines of these calendar shifts, many patients (all pathologies combined) have canceled consultations or preferred not to go to a hospital environment for fear of contracting the virus. Late diagnoses have been made in many people with the dramatic consequence of the effectiveness of late treatments (oncology for example). When looking at chronology, for the past year, the pandemic has put a strain on healthcare teams. The second and then the third wave of contamination (Western countries) again disrupted the schedules of surgeons who were unable to practice with serenity. SpineGuard has thus undergone significant variations in its activity. After a declining 2020 year, Q1 sales also slowed down (-23.8%), particularly in the US (-29%). In Europe, the situation was nevertheless more favorable (+ 21%) but the repeated confinements will undoubtedly limit sales in Q2.

Vaccination of populations on a large scale should allow a return to a more serene health situation and *de facto* contribute to the return to full activity of all surgical services, including orthopedics. The situation is likely to evolve at a different speed depending on the country, but overall, everything suggests that the health crisis is easing by mid-year and that H2 sees a strong rebound in spine surgeries. We therefore remain confident in the group's ability to deliver growth over the fiscal year 2021E. However, we have revised downwards our turnover forecasts which did not yet include the 3rd wave which imposed a 3rd confinement in France and in other European countries, and/or the extension or the hardening of restrictive measures. already in place.

2021E should see the preparation of the launch of DSG Connect (Europe and United States), an optimization of the PediGuard range, the signals of which can now be followed visually using a tablet (bringing additional comfort to the surgeon as well as allowing recording of the procedure). This innovation brings a new wind to the PediGuard range and aligns with the trend of the IOT ("Internet Of Things") which is taking root every day more in the personal and professional spheres. If the technological basis remains intact, a new speech around the PediGuard range should contribute to a more active marketing and support future sales of this first generation of DSG devices.

France - Medtech

BUY

Fair value (EUR)	2.15 (vs 0.85)
Price (EUR)	1.464
Upside/down side	+46.9%

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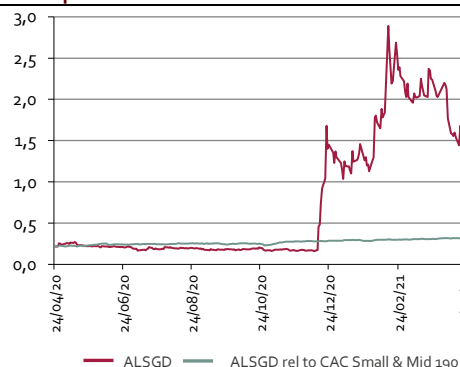
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Stock data (2021-04-23)

ISIN	FR0011464452
Ticker	ALSGD.PA
Price (EUR)	1.464
Market capitalisation (EURm)	34.0
Free float (%) est.	90.0
Floating capitalisation (EURm)	32.3
Number of shares (,000)	24,512
Average daily volume (3 m)	2,368,151

12m performance



Change (%)	1 m	3 m	12m
Absolute	-37.7	+16.2	+577.8
Rel. to CAC SM190	-40.7	+5.4	+531.8
Rel. to Next Biotech	-37.2	+28.0	+584.3

Financials (31/12)

EURm	2020	2021E	2022E	2023E
Sales	4.9	5.6	6.7	8.1
EBITDA	-1.5	-0.3	0.3	0.9
EBIT	-1.8	-0.6	0.0	0.6
Net income	-2.7	-1.2	-0.4	0.4
EPS (EUR)	-0.10	-0.04	-0.01	0.01
Net debt	4.4	3.2	1.5	0.1

Key ratios

	2020	2021E	2022E	2023E
EV/Sales	8.0x	7.1x	5.8x	4.6x
EV/EBITDA	na	na	116.2x	39.5x
EV/EBIT	na	na	1534x	59.3x
PER	na	na	na	105.3x
ROIC	na	na	na	16%
ROE	na %	na	na	8%
EV/IC	9.5x	9.0x	9.2x	9.2x
Gearing	na	220%	49%	2%

The recent publication of annual results and the presentation of the outlook by management have enabled us to refine our cost structure expectations. While investments will be a priority in R&D and marketing (especially in the United States), achieving the breakeven remains a management objective. After a year of significant losses (decline in activity coupled with non-recurring costs related to the safeguard procedure), we believe that the year 2021E will see a significantly reduced loss. We expect this operational improvement to translate into operating profit in 2022E

Anticipated Sales and Operating Profit (in EURm – previous scenario in rose)

	2020	2021E	2021E	2022E	2022E	2023E	2023E
Sales	4.85	5.55	7.95	6.71	10.00	8.14	11.50
Operating Profit	-1.84	-0.63	0.25	0.03	1.00	0.63	1.61

Source: BioStrategic Research

New DSG applications now better identified

During the videoconference on April 8th, management reported on the progress of its R&D programs. We have identified several very positive signals which now provide visibility into the potential applications of DSG technology (prototypes of devices tested) as well as their likely time-to-market. These progresses in developments should be seen in relation to the security of intellectual property such as, for example, the recent approval of patents on the measurement of bone quality in Europe (which is in addition to 5 patents already granted in the United States. and Asia).

- **Partnership with the robotics laboratory at the Sorbonne:** the program delivers very encouraging results (adaptation of arm equipment, optimization of algorithms). Application tests such as the automated placement of smart screws or even the controlled cutting of bone segments become possible in 2022.
- **Intégration of the European FAROS (Functionnally Acurate Robotic Surgery)** program: the end of the safeguard procedure has made it possible to join this ambitious project to develop an autonomous surgical robot which will be endowed with "senses" comparable to those of humans. DSG technology and the feedback loops that it will put in place to secure instrument movements are in perfect alignment with the objectives of this program.
- **Dental implantology:** the partnership with Confident ABC delivers as planned. The first prototypes have been validated. The partner secured funding to carry out the project. Marketing of the first devices could be considered early next year.
- **Smart Universal Drill:** this project has benefited from advances in other programs. The device will address spinal surgery but also orthopedics in the broad sense. The schedule is more distant with an approval scheduled for 2023E and first revenues in 2024E.
- **Bone quality management:** this is a key topic in patients with osteoporosis, a condition that makes any orthopedic surgery delicate or complex. Concept validation has yet to be done, ideally through a partnership.
- **Ultrasound-based navigation:** viewing tissues/organs in real time is essential during a surgery, but X-ray irradiation of the patient but also of the medical staff remains a critical concern in the operating room. SpineGuard has developed an

original concept based on ultrasounds which would make it possible to have a real-time imaging without the side effects of X-rays. A partnership is also envisaged to develop this concept which may become revolutionary.

While SpineGuard has initiated developments in various indications, we believe that DSG technology should be understood as a concept that can/must integrate existing equipment or be an integral part of next generations of robots. Usage value will therefore depend on what potential partners wish to achieve by optimizing existing assets or when creating new device/equipment. The most important thing for the group today is to validate the concepts and offer third parties the most versatile offer, a strategy that will make it possible to stratify the markets and therefore maximize the creation of value (licensing agreements in desired indications). Apart from dental applications, it is still premature to make reliable projections on the future revenues of all these applications of DSG technologies. However, the intrinsic value of these assets is real and should now be considered.

Valuation and rating

In our opinion, 2020 is a pivotal year for SpineGuard which now shows a renewed image. Through its innovations, the group is positioned in a very active segment of the Medtech industry: robotics and its derived equipment. We have so far not taken into account the value of these projects / assets due to lack of visibility. The situation has changed radically with recent communication and the group must now be viewed from a new angle of value creation. The historical business remains present and offers an indisputable value base, nevertheless limited or rather dependent on the capacity of deployment in a difficult environment (large groups with very large catalogs having framework agreements with many hospitals, especially in the United States). Given the advances in robotics, we now believe it is relevant to grant SpineGuard a significant premium in view of the interest that its various DSG programs may arouse among players with a franchise in robotics or wishing to position themselves with a differentiating offer. Partnerships or takeovers bear witness to this appetite for innovative companies, even in the early phase of commercial deployment. One of DSG's strengths is the possibility of its implementation on an installed base of equipment (providing an additional function). This situation should therefore be conducive to rapid deployment for a leading player which has already sold robots to a large number of hospitals (public or private).

Deals in the sector of Health Robotics (in USDm)

Date	Buyer	Target	Activity	Deal
Oct. 2019	Siemens	Corindus Vascular Robotics	Vascular robotics	1,100
Sep. 2019	Stryker	Mobius/Cardian Robotics	Navigation and Robotics	500
Mar. 2019	J&J	Auris Surgical Robots	Endoscopy robotics	3,400
Oct. 2018	Medtronic	Mazor Robotics	Spine surgery guidance	1,640
Jul. 2016	ZimmerBiomet	Medtech	Surgery robotics spine/brain	195

Source : BioStrategic Research

Our DCF valuation of the historical activity, based on a conservative scenario, gives an Enterprise Value close to EUR22m, or an equity value of EUR17m. This valuation does not take into account future revenues from sales of new DSG devices, whether they are proprietary (sale by SpineGuard) or developed by third parties (partnerships or licenses / disposals).

Regarding robotic activities (and related devices), we must look at DSG technology as an "add-on" to existing or developing devices. It would therefore be unrealistic to take as a basis for valuing companies bought back for their robot (Mazor, the French Medtech or even Mako). We have not identified a deal in the sector that could resemble the sale of a technological brick that completes a complex set/device. We believe that the DSG brick will allow robotics players to maintain market share or offer them the opportunity to

enter the Health sphere thanks to the differentiating nature of the technology. DSG should therefore be measured as a "part" of an asset. Assigning it between 1 and 5% of the transaction value of major buybacks in the sector would therefore seem relevant to us. We have retained the Medtronic-Mazor Robotics and J & J-Auris Surgical Robotics transactions as the basis for our assessment. The range obtained is quite wide (USD25m to USD125m) but a value of EUR30m to EUR40m would seem fair to us given the state of the art and the application potential.

The sum of the parts (DCF PediGuard + DSG) is in a range of 47 to EUR57m. We will conservatively retain EUR50m, i.e. approximately EUR2.15 / share on a diluted basis.

SpineGuard is poised to achieve its metamorphosis and change the perception by the market but above all will become more visible to key players in the Medtech sector. It is therefore obvious that investors will be led to recognize this very realistic equity story. We are therefore very confident on the matter and renew our positive opinion with a new price target of EUR2.15/ share (vs EUR0.85).

Next communication: Q2 sales July 7th (after market)

Profit and Loss

As of 31/12 (EURm)	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales	7,46	8,17	7,58	6,83	4,85	5,55	6,71	8,14
Change n-1	17,6%	9,5%	-7,3%	-9,9%	-29,0%	14,4%	20,9%	21,3%
Other revenues	-	-	-	-	-	-	-	1,00
Total revenues	7,46	8,17	7,58	6,83	4,85	5,55	6,71	9,14
Gross margin	6,35	6,95	6,55	5,77	4,04	4,81	5,82	7,08
EBITDA	-3,31	-2,66	-0,86	-0,14	-1,49	-0,33	0,33	0,94
Change n-1	11%	20%	68%	84%	-993%	78%	202%	-183%
Depreciation & amortisation	0,33	0,31	0,26	0,30	0,35	0,30	0,31	0,32
Goodwill	-	-	-	-	-	-	-	-
EBIT	-3,63	-2,96	-1,11	-0,43	-1,84	-0,63	0,03	0,63
Change n-1	9%	18%	63%	61%	-326%	66%	104%	-2393%
Net financial income	-0,54	-1,16	-1,21	-0,64	-0,84	-0,53	-0,40	-0,28
Minorities	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Net profit before tax	-4,18	-4,13	-2,32	-1,07	-2,68	-1,16	-0,38	0,35
Tax	-	-	-0,02	0,39	-0,04	-	-	-
Net in come	-4,18	-4,13	-2,33	-0,69	-2,72	-1,16	-0,38	0,35
Change n-1	-8%	1%	43%	71%	-296%	57%	67%	193%
EPS	-0,82	-0,72	-0,34	-0,05	-0,12	-0,05	-0,01	0,01
EPS fully diluted	-0,75	-0,65	-0,31	-0,05	-0,10	-0,04	-0,01	0,01
Gross margin (% of sales)	85,1%	85,1%	86,5%	84,5%	83,2%	86,6%	86,8%	87,0%
EBITDA (% of sales)	NA	NA	NA	NA	NA	NA	5,0%	11,6%
EBIT (% of sales)	NA	NA	NA	NA	NA	NA	0,4%	7,7%
Net margin (% of sales)	NA	NA	NA	NA	NA	NA	NA	4,3%

Cash Flow statement

Au 31/12 (MEUR)	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net income	-4,18	-4,13	-2,33	-0,69	-2,72	-1,16	-0,38	0,35
Depreciation and amortisation	0,33	0,31	0,26	0,30	0,35	0,30	0,31	0,32
Goodwill	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Change in WCR	-1,01	0,26	-0,08	0,27	0,64	-0,51	0,34	0,29
Others	0,83	1,05	1,49	0,71	1,04	0,88	0,75	0,68
Cash-flow from operations	-4,03	-2,51	-0,67	0,60	-0,68	-0,48	1,03	1,63
Capex	-0,06	-0,05	-0,05	-0,08	-0,05	-0,08	-0,08	-0,08
Free cash flow	-4,09	-2,56	-0,72	0,52	-0,73	-0,56	0,95	1,55
Acquisitions	-0,09	-	-	-0,15	-0,15	-0,15	-0,15	-0,15
Divestments	0,01	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Capital increase	0,42	2,21	1,68	1,75	1,75	2,00	1,00	-
Financing (bank and others)	2,87	0,01	4,64	0,22	0,01	-	-	-
Others	-0,54	-0,26	-5,73	-1,54	-0,99	-1,25	-1,19	-1,13
Change in cash over the period	-1,42	-0,61	-0,13	0,80	-0,12	0,03	0,61	0,28
Opening cash position	3,23	1,80	1,19	1,05	2,01	2,03	2,22	2,97
Closing cash position	1,80	1,19	1,06	1,85	1,89	2,07	2,82	3,25

Balance sheet

Au 31/12 (MEUR)	2016	2017	2018	2019	2020	2021E	2022E	2023E
Fixed assets	0,18	0,14	0,12	0,63	0,50	0,43	0,35	0,26
Intangible assets	1,11	0,90	0,72	0,72	0,69	0,55	0,40	0,25
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	1,02	0,81	0,84	0,66	0,66	0,55	0,67	0,81
Account receivables	1,41	1,38	1,32	0,95	0,71	0,93	1,13	1,37
Other receivables	0,68	0,54	0,59	0,55	0,67	0,48	0,55	0,66
Cash and cash equivalents	1,80	1,19	1,06	1,40	1,22	1,41	2,16	2,59
Prepaid expenses	-	-	-	-	-	-	-	-
Other non-current assets	0,13	0,12	0,13	0,50	0,51	0,51	0,51	0,51
Total assets	9,41	8,15	7,86	8,50	8,06	7,94	8,85	9,53
Equity	1,19	-0,21	-0,50	0,59	-0,01	1,46	3,03	4,28
Others	-	-	-	-	-	-	-	-
Provisions	0,07	0,05	0,05	0,05	0,05	0,05	0,05	0,05
Financial debt	6,00	6,23	6,07	6,08	5,64	4,63	3,65	2,66
Account payables	1,19	1,04	1,16	1,04	1,34	0,70	0,85	1,03
Other debts	0,96	0,98	0,81	0,62	0,88	0,93	1,12	1,36
Deferred income and other liabilities	-	0,06	0,26	0,11	0,15	0,15	0,15	0,15
Total liabilities	9,41	8,15	7,86	8,50	8,06	7,94	8,85	9,53

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