

## Morning Note – 14<sup>th</sup> April 2023

### SPINEGUARD

#### 2022 Annual Results and Q1 2023 revenues

- A rebound year in 2022
- 2023: on all fronts
- Fundamentals unchanged and still undervalued

#### Good sales momentum restored

SpineGuard released its annual results last night. After two financial years disrupted by the pandemic, the number of DSG units sold in 2022 was 5,934 (+15%), generating revenue growth of +27.1% (+17.4% at constant exchange rates), driven by a very good dynamic in Europe and Latin America. The United States also returned to growth, but at a more moderate rate (+9% at constant exchange rates). These figures published in January have already been commented on (see our comment of January 10<sup>th</sup>).

#### Logical increase in expenses in view of the actions taken

Having stocks of certain components, SpineGuard was able to limit the increase in the COGS of its medical devices over part of the year. Price increases applied to customers contributed to a significant improvement in the gross margin, which stood at 84.2% (vs 81.9% in 2021). This improvement will certainly be short-lived. Indeed, with the disposal of stocks of parts purchased before the inflation period, the gross margin should be impacted in 2023 as the group will be subject to the various price increases from its suppliers over the full year.

Regarding operating expenses, 2022 saw a return of the teams to the field, leading to a logical increase in commercial expenses, which stood at EUR 3.70m (vs. EUR 2.66m). The group also continued to invest in R&D to reach key stages in certain promising projects. The current operating loss is therefore higher than last year (EUR -1.53m vs. EUR -1.24m).

The company's indebtedness logically weighs on the income statement (financial expenses of EUR 427k) but the management is looking at solutions to reorganize this debt (possible partial reimbursement). A reversal of deferred tax of the American subsidiary also impacts the income statement. The net loss is thus increased to EUR -2.39m (vs EUR -1.72m).

Cash and cash equivalents as at 31/12 amounted to EUR 4.2m. With additional financing (BSAR), visibility is at the end of 2024.

#### Mixed performance in Q1

Alongside the annual results, the company also published its turnover for Q1. It stands at EUR 1.27m, up by +12% (+10% at constant exchange rates). Europe performed very well as well as Latin America, with the number of DSG units sold up by 34%. In contrast, US activity was stable (565 units sold in Q1 vs 569 in Q1 2022). This lacklustre performance can be explained in part by a probable stock effect at partner Wishbone, which has honored a minimum of its contractual commitment, but above all to the structuring of the sales team, which needs to be established on a long-term basis (sales representatives working in states far from the subsidiary located in Colorado). New recruitments are underway to strengthen the presence on

### France - Medtech

**BUY**

Fair value (EUR)	1.56
Price (EUR)	0.753
Upside/down side	+107.2%

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#### Stock data (2023-04-13)

ISIN	FR0011464452
Ticker	ALSGD.PA
Price (EUR)	0.753
Market capitalisation (EURm)	27.1
Free float (%) est.	96.1
Floating capitalisation (EURm)	26.0
Number of shares (,000)	35,975
Average daily volume (3 m)	273,117

#### 12m performance



Change (%)	1 m	3 m	12m
Absolute	-18.1	+9.1	-28.3
Rel. to CAC SM190	-17.8	+9.4	-23.9
Rel. to Next Biotech	-21.9	+17.2	-18.9

#### Financials (31/12)

EURm	2021	2022E	2023E	2024E
Sales	4.4	5.6	7.2	8.9
EBITDA	-1.5	-0.4	0.3	1.0
EBIT	-1.8	-0.7	0.0	0.6
Net income	-2.7	-1.1	-0.3	0.5
EPS (EUR)	-0.10	-0.03	-0.01	0.01
Net debt	4.4	-1.0	-1.6	-2.8

#### Key ratios

	2021	2022E	2023E	2024E
EV/Sales	7.5x	4.7x	3.7x	2.9x
EV/EBITDA	na	na	na	32.1x
EV/EBIT	na	na	na	57.5x
PER	na	na	na	94.6x
ROIC	na	na	na	12%
ROE	na	na	na	5%
EV/IC	7.8x	6.3x	6.5x	6.7x
Gearing	na	-17%	-24%	-37%

the ground.

### **Real challenges in 2023**

For several months now, the activity of operating theatres has not been disrupted by the pandemic. The priority for 2023 is above all to regain momentum in the United States. The resources allocated should help stabilize the teams and assert a presence in the field to improve visibility and capitalize on the strong interest of doctors at recent conferences.

The year 2022 saw significant progress in the development of new products:

- The DSG Connect offer is gradually being implemented as the number of surgeries passed the 500 mark (version of the PediGuard paired with a tablet for signal visualization, a more ergonomic version than the historical device with a simple sound signal). The learning curve of the first users is used to refine the device and reinforce its attractiveness.
- The robotics project is well underway with recent results on 100% bone breach detection. The company is funding a new thesis with the Sorbonne team to advance the robotic integration work.
- The "smart drill" project is progressing as planned with the design of a drill that is compatible with the various drill machines available on the market (making the device accessible to as many surgeons as possible regardless of their existing equipment). Key features such as an automatic stop system or depth and angle measurement are being developed for the second prototyping.
- The "smart screw" project with US partner Omnia Medical is on schedule. A specific development of DSG technology to guide the surgeon during sacroiliac fusions is also underway.

The only downside is a setback on the dental project. Although progress was made in 2022, the partner Confident ABC seems less responsive and the programme has slowed down. The technical rationale is not in question. Nor are the commercial prospects in question. SpineGuard, still convinced of the potential of this project, wishes to maintain a sustained pace of development and is looking at possible outcomes or evolutions of this partnership in order to quickly bring the first devices to market.

### **Valuation and rating**

The figures published are not really surprising. After the pandemic, the company is recovering its business and needs to invest in the commercial side to return to high growth rates. The commercial momentum in the US is the real issue in our view but an increased presence on the ground should help to regain momentum. We are waiting for the financial report to be published to adjust the cost structures in our model. The fundamentals remain strong and there is interest in new projects. We therefore remain positive on the dossier.

*Next communication : H1 revenue on July 12<sup>th</sup>*

## Profit and Loss

As of 31/12 (EURm)	2017	2018	2019	2020	2021	2022E	2023E	2024E
<b>Sales</b>	<b>8.17</b>	<b>7.58</b>	<b>6.83</b>	<b>4.85</b>	<b>4.41</b>	<b>5.62</b>	<b>7.16</b>	<b>8.91</b>
Change n-1	9.5%	-7.3%	-9.9%	-29.0%	-9.2%	27.6%	27.4%	24.4%
Other revenues	-	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>8.17</b>	<b>7.58</b>	<b>6.83</b>	<b>4.85</b>	<b>4.41</b>	<b>5.62</b>	<b>7.16</b>	<b>8.91</b>
Gross margin	6.95	6.55	5.77	4.04	3.61	4.56	5.90	7.38
<b>EBITDA</b>	<b>-2.66</b>	<b>-0.86</b>	<b>-0.14</b>	<b>-1.49</b>	<b>-1.04</b>	<b>-0.38</b>	<b>0.35</b>	<b>0.97</b>
Change n-1	20%	68%	84%	-993%	30%	63%	191%	-178%
Depreciation & amortisation	0.31	0.26	0.30	0.35	0.31	0.33	0.34	0.35
Goodwill	-	-	-	-	-	-	-	-
<b>EBIT</b>	<b>-2.96</b>	<b>-1.11</b>	<b>-0.43</b>	<b>-1.84</b>	<b>-1.35</b>	<b>-0.71</b>	<b>0.01</b>	<b>0.63</b>
Change n-1	18%	63%	61%	-326%	27%	47%	102%	-4338%
Net financial income	-1.16	-1.21	-0.64	-0.84	-0.30	-0.40	-0.28	-0.15
Minorities	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
<b>Net profit before tax</b>	<b>-4.13</b>	<b>-2.32</b>	<b>-1.07</b>	<b>-2.68</b>	<b>-1.65</b>	<b>-1.11</b>	<b>-0.26</b>	<b>0.48</b>
Tax	-	-0.02	0.39	-0.04	-0.08	-	-	-
<b>Net in come</b>	<b>-4.13</b>	<b>-2.33</b>	<b>-0.69</b>	<b>-2.72</b>	<b>-1.72</b>	<b>-1.11</b>	<b>-0.26</b>	<b>0.48</b>
Change n-1	1%	43%	71%	-296%	37%	35%	77%	285%
EPS	-0.72	-0.34	-0.05	-0.12	-0.06	-0.04	-0.01	0.02
EPS fully diluted	-0.65	-0.31	-0.05	-0.10	-0.05	-0.03	-0.01	0.01
Gross margin (% of sales)	85.1%	86.5%	84.5%	83.2%	81.9%	81.2%	82.5%	82.9%
EBITDA (% of sales)	NA	NA	NA	NA	NA	NA	4.9%	10.9%
EBIT (% of sales)	NA	NA	NA	NA	NA	NA	0.2%	7.1%
Net margin (% of sales)	NA	NA	NA	NA	NA	NA	NA	5.4%

## Cash Flow statement

Au 31/12 (MEUR)	2017	2018	2019	2020	2021	2022E	2023E	2024E
<b>Net income</b>	<b>-4.13</b>	<b>-2.33</b>	<b>-0.69</b>	<b>-2.72</b>	<b>-1.72</b>	<b>-1.11</b>	<b>-0.26</b>	<b>0.48</b>
Depreciation and amortisation	0.31	0.26	0.30	0.35	0.31	0.33	0.34	0.35
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Change in WCR	0.26	-0.08	0.27	0.64	-0.09	0.14	0.46	0.40
Others	1.05	1.49	0.71	1.04	0.27	0.34	0.26	0.13
<b>Cash-flow from operations</b>	<b>-2.51</b>	<b>-0.67</b>	<b>0.60</b>	<b>-0.68</b>	<b>-1.23</b>	<b>-0.30</b>	<b>0.80</b>	<b>1.36</b>
Capex	-0.05	-0.05	-0.08	-0.05	-0.04	-0.08	-0.08	-0.08
<b>Free cash flow</b>	<b>-2.56</b>	<b>-0.72</b>	<b>0.52</b>	<b>-0.73</b>	<b>-1.27</b>	<b>-0.38</b>	<b>0.72</b>	<b>1.28</b>
Acquisitions	-	-	-0.15	-0.15	-0.33	-0.15	-0.15	-0.15
Divestments	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Capital increase	2.21	1.68	1.75	1.75	6.48	1.00	-	-
Financing (bank and others)	0.01	4.64	0.22	0.01	0.04	-	-	-
Others	-0.26	-5.73	-1.54	-0.99	-0.91	-1.19	-1.13	-1.06
<b>Change in cash over the period</b>	<b>-0.61</b>	<b>-0.13</b>	<b>0.80</b>	<b>-0.12</b>	<b>4.01</b>	<b>-0.72</b>	<b>-0.56</b>	<b>0.07</b>
Opening cash position	1.80	1.19	1.05	2.01	2.03	6.33	5.76	5.36
Closing cash position	1.19	1.06	1.85	1.89	6.04	5.61	5.21	5.43

## Balance sheet

Au 31/12 (MEUR)	2017	2018	2019	2020	2021	2022E	2023E	2024E
Fixed assets	0.14	0.12	0.63	0.50	0.37	0.30	0.21	0.12
Intangible assets	0.90	0.72	0.72	0.69	0.89	0.72	0.55	0.38
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	0.81	0.84	0.66	0.66	0.68	0.56	0.71	0.88
Account receivables	1.38	1.32	0.95	0.71	0.62	0.95	1.20	1.50
Other receivables	0.54	0.59	0.55	0.67	0.57	0.51	0.65	0.83
Cash and cash equivalents	1.19	1.06	1.40	1.22	5.21	4.64	4.23	4.45
Prepaid expenses	-	-	-	-	-	-	-	-
Other non-current assets	0.12	0.13	0.50	0.51	0.48	0.48	0.48	0.48
<b>Total assets</b>	<b>8.15</b>	<b>7.86</b>	<b>8.50</b>	<b>8.06</b>	<b>11.90</b>	<b>11.23</b>	<b>11.12</b>	<b>11.73</b>
Equity	-0.21	-0.50	0.59	-0.01	5.06	5.30	5.65	6.64
Others	-	-	-	-	-	-	-	-
Provisions	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Financial debt	6.23	6.07	6.08	5.64	4.47	3.65	2.66	1.67
Account payables	1.04	1.16	1.04	1.34	1.00	0.71	0.91	1.13
Other debts	0.98	0.81	0.62	0.88	1.00	1.21	1.54	1.92
Deferred income and other liabilities	0.06	0.26	0.11	0.15	0.32	0.32	0.32	0.32
<b>Total liabilities</b>	<b>8.15</b>	<b>7.86</b>	<b>8.50</b>	<b>8.06</b>	<b>11.90</b>	<b>11.23</b>	<b>11.12</b>	<b>11.73</b>

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