

# aap Implantate

**Healthcare equipment & services**
**6 April 2017**

## Time to capitalise on its core focus - trauma

aap Implantate announced that it successfully completed its transformation to a pure trauma player in 2016. The company reported challenging FY16 results that were below management's original expectations, but broadly in line with the revised guidance, with sales from its continuing operations down 15% y-o-y to €10.5m. However, this was not wholly unexpected as the company has undergone a strategic transition to being a pure trauma-focused company. Increasing market penetration in Europe and the US will be key to a successful return to growth.

## Challenging FY16 results but progressed strategically

FY16 was a year of transition to being a pure trauma player, which aap achieved with divestments of its biomaterials business and remaining stake in aap Joints. The company reported sales from continuing operations (€10.5m) and EBITDA of -€7.9m broadly in line with its revised revenue guidance. Progress in FY16 was primarily tempered by missing sales from China, which was a main market in 2015 (€3.3m in FY15). Importantly, however, sales in more established markets such as North America and Europe reported a solid performance, with an increase in revenues from €4.5m in FY15 to €6.8m in FY16 (+50%). This is positive as the company has been focused over the last 12 months on initiatives to drive sales predominantly in more established markets and this appears to be demonstrating some traction.

## Key areas of focus to deliver strategy

aap's product and technology portfolio centres on three platform technologies: its Anatomical Plating System (LOQTEQ) for fracture repair, its antibacterial silver coating technology (in the regulatory process), which prevents the formation of biofilm and therefore reduces infection risk, and absorbable magnesium (in development). For aap to deliver on its strategy of achieving growth and improved gross margins, it needs to deliver on three primary aspects: increased LOQTEQ indication coverage (currently 90%+), continued revenue growth in the established markets (North America and Europe) and execution of a deal around its silver coating technology with a larger player and/or progress its CE marking alone.

## Valuation: Upside potential if strategy executed

There is upside potential if aap Implantate returns to revenue growth and progresses its trauma product technologies. M&A continues to be significant in this sector and we expect a gradual shift away from scale-based acquisitions towards transactions that enhance value through innovation and enable a focus on category leadership and portfolio depth. If the company delivers on its strategy, we could see a return to sustained growth, which could attract M&A value.

### Reported financials

Year end	Revenue (€m)	PBT (€m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/15	28.0	(5.3)	(0.2)	0.0	N/A	N/A
12/16	14.7	14.6	0.5	0.0	26	N/A

Source: aap Implantate accounts

**Price** €1.3  
**Market cap** €40m

### Share price graph



### Share details

Code	AAQ
Listing	XETRA
Shares in issue	30.8m

### Business description

aap Implantate is a German medtech company, focused on developing, manufacturing and selling products for bone fractures. This is primarily the LOQTEQ trauma plating system alongside earlier-stage innovations including antibacterial silver coating technology and absorbable magnesium.

### Bull

- Proven technology and strong IP protection.
- Transition to a pure trauma player enables a focus on building the core.
- Focused on driving sales in more established markets – increased distributors in the US and an experienced head of US sales engaged.

### Bear

- FY16 continuing business (trauma) sales were down by 15% on FY15.
- The orthopaedic space is dominated by a few large players, making it difficult for a small player to gain traction.
- Impact of increased sales focus on established markets not yet fully demonstrated.

### Analyst

Dr Linda Pomeroy	+44 (0)20 3077 5738
Lala Gregorek	+44 (0)20 3681 2527

[healthcare@edisongroup.com](mailto:healthcare@edisongroup.com)

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