

aap Implantate

Healthcare equipment & services
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Focus is the key foundation

aap Implantate's recent results for Q317 and the first nine months of 2017 (9M17) justified its recent trauma focus with 11% and 13% increases in trauma sales, respectively. With investments in the Quality First initiative, the evaluation of strategic options and the share buyback, it was pleasing to see that sales and EBITDA (loss) continue to be expected within the guidance range for the full year, albeit towards the lower end of the range.

Q3 within guidance

In Q3, aap Implantate reported total sales of €2.6m and an EBITDA loss of €1.6m; both in line with quarterly guidance. aap therefore remains on track to meet its forecast guidance for the full year. Although EBITDA losses reduced in Q3 by 11% y-o-y and by 8% for 9M17, total sales declined by 10% and 9% over the comparable Q3 and 9M periods, respectively. This was primarily due to the Joints and Biomaterials divestments in 2016. From an operational view, working capital decreased and, reflecting the efficiency measures undertaken, average days sales outstanding was down by more than 10% compared to last year.

Strategic components now in place

aap Implantate has focused efforts on its trauma business, and on higher-margin established markets, while stabilising other markets like China and Brazil. Q3 demonstrated the benefits of this strategy with 11% sales growth (to €2.6m) in trauma, and incorporated 14% North American sales growth (23% for 9M17). Gross margins increased to 87% from 68% in Q3 y-o-y, reflecting higher sales share in established markets and sales growth in trauma, in combination with reduced personnel costs.

Valuation may not reflect business expansion

With a market cap of less than €50m, aap is among the smallest of the focused public medical device companies. Its valuation may not reflect the future potential to the company of its antimicrobial silver-coated implant technology. This aims to reduce what can be very expensive and risky surgical revisions and medical treatment due to infections associated with the surgery. Silver coating technology is meant to prevent surgical site infections that are a significant cost and morbidity burden to healthcare systems. In the longer term, silver coating technology could be applied to cardiovascular and dental devices, potentially providing additional licensing revenues. Clarification on the size, cost and duration of the planned clinical study for a US PMA approval to achieve these claims for silver-coated implants is expected to be announced in Q118.

Price €1.66
Market cap €47m

Share price graph



Share details

Code AAQ
 Listing XETRA
 Shares in issue 28.6m

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 innovations including antibacterial silver coating technology and bioabsorbable magnesium implants that are to be incorporated into its products.

Bull

- Proven technology and strong IP protection.
- Transition to a pure trauma player is now complete with product line expansion to include aap Foot.
- Focused on driving sales in more established markets – increased number of distributors in the US and an experienced head of US sales engaged.

Bear

- Clinical trial costs and timelines for silver-coated trauma implants remain to be determined.
- 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 just starting to be demonstrated.

Analysts

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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	N/A	N/A

Source: aap Implantate accounts

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