

aap Implantate

Healthcare equipment & services

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Progression to a pure trauma player

aap Implantate is undergoing a strategic transition to being a pure trauma company and Q1 results, which were within guidance, set the scene for the group in its new shape. The completed sale of its biomaterials business (based on an assumed enterprise value of €36m), a drive to growth in Western Europe and the US and cost reshaping should support management's guidance of 20% growth in trauma products and sales in the continued operation of €13-15m in FY16.

Sale of biomaterials business finally complete

In March aap Implantate (aap) announced the signing of a share purchase agreement for the disposal of its subsidiary, aap Biomaterials to a European private equity firm for an assumed enterprise value of €36m. As a result of the disposal, assets of €13.9m and liabilities of €2.2m were reported as held for sale at FY15 and will reduce accordingly. In our view, management has a range of options to pursue with the resulting cash (estimated balance c €35m post sale), including accelerating organic growth in trauma, pursuing strategic acquisitions, or initiating a share buyback programme.

Outlook in the trauma space

The trauma portfolio centres on three technologies: aap's anatomical plating system (LOQTEQ) for fracture repair; its antibacterial silver coating technology, which prevents the formation of biofilm and therefore reduces infection; and magnesium-based implants. Q1 revenue for its continuing business, Trauma, was reported at €2.2m vs €2.6m Q115, affected by lower sales in the volatile emerging markets. The company's strategic aim is to drive sales in more established markets in Western Europe (where fracture indication coverage has improved for the LOQTEQ plates) and the US. With an increasing number of distributors in the US and a new experienced head of US sales, this market will be one of the key markets for stability and potential subsequent growth of the trauma business.

Valuation: Upside potential if strategy executed

In the near term, we expect upside potential as the company focuses on a return to revenue growth and as the trauma product technologies progress, to include a possible CE mark for its antibacterial silver coating technology. In the longer term, providing aap delivers on its strategy, we consider that by becoming a trauma-focused company with proven technology, strong IP protection and with increased sales it could build a solid and stronger franchise in Trauma.

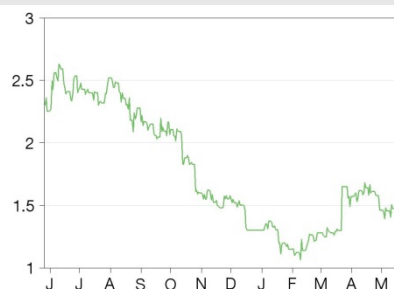
Historical financials

| Year end | Revenue (€m) | PBT (€m) | EPS (c) | DPS (c) | P/E (x) | Yield (%) |
|----------|--------------|----------|---------|---------|---------|-----------|
| 12/14 | 30.6 | (1.7) | 0.0 | 0.0 | N/A | N/A |
| 12/15 | 28.0 | (5.3) | (0.2) | 0.0 | N/A | N/A |

Source: aap Implantate

Price €1.50
Market cap €46m

Share price graph



Share details

Code AAQ
Listing XETRA
Shares in issue N/A

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 magnesium-based implants.

Bull

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

Bear

- FY15 sales were down by 9% on FY14. Trauma sales were down 16%. Q1 sales demonstrated a similar trend.
- 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 will not be demonstrated until H216.

Analyst

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