

aap Implantate AG

Dutch divestment

aap has successfully executed the sale of the contract manufacturing business for €18m. This will allow aap to increasingly focus on the key growth areas of trauma and bone cements. Performance of these business units should become more transparent, with the cash facilitating both internal and potentially external high-growth opportunities to now be more actively pursued. Our forecasts are under review pending full details of the transaction implications, expected with FY13 results on 31 March.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/11	29.2	2.7	0.08	0.0	37.2	N/A
12/12	36.4	4.9	0.14	0.0	21.3	N/A
12/13e	N/A**	N/A	N/A	N/A	N/A	N/A
12/14e	N/A	N/A	N/A	N/A	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments. **FY13 top-line revenue of €40m has been reported.

Executing on strategy to simplify and specialise

The Dutch-based contract manufacturing business (EMCM) has been sold to a private equity firm for €18m, representing 1.5x 2013 sales and around 9x EBITDA. aap had previously highlighted that strategic options for this business were being evaluated as part of the strategy to simplify the business and concentrate on the key growth areas of trauma, driven by Loqteq, and bone cements.

Pipeline patent: Every cloud has a silver lining

Beyond Loqteq, aap is working on a number of trauma pipeline opportunities, including silver-coated trauma plates to reduce infection and biodegradable magnesium implants for small bone fractures. aap recently received a "notice of allowance" in the US for the silver coating patent, implying that the USPTO will grant the patent. Data from the ongoing initial preclinical trial are expected in Q214 with potential market launch in 2015.

Financial forecasts withdrawn pending FY13 results

The financial implications of the EMCM divestment will be disclosed with FY13 results on 31 March. Previous 2014 guidance, with which we were in line, is no longer valid and we have withdrawn our financial forecasts. Reported top-line 2013 sales of €40m and EBITDA of around €7m are intact and in line with our previous forecasts, although €12m of EMCM sales will now appear as a discontinued operation. Adjustments to tangible and intangible assets will affect depreciation and amortisation, and hence 2013 EBIT, EBT and net profits.

Valuation: Withdrawn pending updated financials

Our previously published valuation was €100m or €3.3/share, based on 2012-15 revenue CAGR of 10% and a doubling of sales to around €80m by 2020, driven by Loqteq, with EBITDA margins expanding around 200 basis points over the next two to three years. Our financial forecasts are withdrawn pending FY13 results.

Sale of a non-core business

Healthcare equipment & services

3 March 2014

Price €2.98
Market cap €91m

Net cash (€m) as at end September 2013	3.0
Shares in issue	30.7m
Free float	34%
Code	AAQ
Primary exchange	Xetra
Secondary exchange	N/A

Share price performance



Business description

aap Implantate is a German medical technology company focused on developing, manufacturing and selling products for bone fractures. These include the recently launched Loqteq trauma plating system, in addition to bone cements.

Next events

FY13 financial results	31 March 2014
Silver-coated trauma plates preclinical data	Q214
Loqteq US partnership decision	H114

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Exhibit 1: Financial summary

	€000s	2008	2009	2010	2011	2012	2013e	2014e	2015e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue		31,884	33,101	28,440	29,205	36,414	N/A*	N/A	N/A
Total Output		36,476	34,788	32,560	33,003	39,337	N/A	N/A	N/A
Cost of Sales		(9,233)	(7,411)	(9,535)	(8,078)	(10,776)	N/A	N/A	N/A
Gross Profit		22,651	25,690	18,905	21,127	25,638	N/A	N/A	N/A
EBITDA		3,713	6,563	3,448	4,126	6,106	N/A*	N/A	N/A
Operating Profit (before amort. and except.)		2,300	5,313	2,406	3,072	5,034	N/A	N/A	N/A
Intangible Amortisation		(6,935)	(1,719)	(1,687)	(1,907)	(2,837)	N/A	N/A	N/A
Exceptionals		0	0	0	0	1,015	N/A	N/A	N/A
Other		(6)	(306)	(174)	(220)	(316)	N/A	N/A	N/A
Operating Profit		(4,641)	3,288	545	945	2,896	N/A	N/A	N/A
Net Interest		(917)	(534)	(359)	(327)	(176)	N/A	N/A	N/A
Profit Before Tax (norm)		1,383	4,779	2,047	2,745	4,858	N/A	N/A	N/A
Profit Before Tax (FRS 3)		(5,558)	2,754	186	618	2,720	N/A	N/A	N/A
Tax		324	(816)	(135)	(223)	(310)	N/A	N/A	N/A
Profit After Tax (norm)		1,701	3,657	1,738	2,302	4,232	N/A	N/A	N/A
Profit After Tax (FRS 3)		(5,234)	1,938	51	395	2,410	N/A	N/A	N/A
Average Number of Shares Outstanding (m)		26.2	27.6	27.8	29.6	30.7	N/A	N/A	N/A
EPS - normalised (€)		0.07	0.13	0.06	0.08	0.14	N/A	N/A	N/A
EPS - normalised and fully diluted (€)		6.62	0.13	0.06	0.08	0.14	N/A	N/A	N/A
EPS - (IFRS) (€)		(0.20)	0.07	0.00	0.01	0.08	N/A	N/A	N/A
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A
Gross Margin (%)*		71.0	74.1	65.4	72.3	68.1	N/A	N/A	N/A
EBITDA Margin (%)		11.6	19.8	12.1	14.1	16.8	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		7.2	16.1	8.5	10.5	13.8	N/A	N/A	N/A
BALANCE SHEET									
Fixed Assets		44,493	41,066	42,597	43,675	44,921	N/A	N/A	N/A
Intangible Assets		34,506	35,528	37,000	38,248	39,403	N/A	N/A	N/A
Tangible Assets		7,309	5,055	5,200	5,071	5,107	N/A	N/A	N/A
Investments		2,678	483	397	356	411	N/A	N/A	N/A
Current Assets		22,537	21,589	21,035	22,476	23,669	N/A	N/A	N/A
Stocks		13,714	11,538	12,688	13,991	13,943	N/A	N/A	N/A
Debtors		6,795	6,007	6,204	5,508	4,226	N/A	N/A	N/A
Cash		96	2,406	909	2,152	3,698	N/A	N/A	N/A
Other		1,932	1,638	1,234	825	1,802	N/A	N/A	N/A
Current Liabilities		(16,334)	(13,596)	(14,986)	(15,126)	(13,018)	N/A	N/A	N/A
Creditors		(8,900)	(7,912)	(9,485)	(9,647)	(8,521)	N/A	N/A	N/A
Short term borrowings		(7,434)	(5,684)	(5,501)	(5,479)	(4,497)	N/A	N/A	N/A
Long Term Liabilities		(9,393)	(4,344)	(3,794)	(2,675)	(4,706)	N/A	N/A	N/A
Long term borrowings		(3,008)	(1,836)	(1,163)	(74)	(2,019)	N/A	N/A	N/A
Other long term liabilities		(6,385)	(2,508)	(2,631)	(2,601)	(2,687)	N/A	N/A	N/A
Net Assets		41,303	44,715	44,852	48,350	50,866	N/A	N/A	N/A
CASH FLOW									
Operating Cash Flow		544	4,761	2,654	3,213	7,088	N/A	N/A	N/A
Net Interest		0	0	0	0	0	N/A	N/A	N/A
Tax		0	0	0	0	0	N/A	N/A	N/A
Capex		(2,459)	(645)	(1,191)	(928)	(1,205)	N/A	N/A	N/A
Acquisitions/disposals		10	5,001	961	138	261	N/A	N/A	N/A
Financing		2,763	1,267	45	3,039	(101)	N/A	N/A	N/A
Dividends		0	0	0	(34)	0	N/A	N/A	N/A
Net Cash Flow		858	10,384	2,469	5,428	6,043	N/A	N/A	N/A
Opening net debt/(cash)		9,101	10,346	5,114	5,755	3,401	N/A	N/A	N/A
HP finance leases initiated		0	0	0	0	0	N/A	N/A	N/A
Other**		(2,103)	(5,152)	(3,110)	(3,074)	(5,460)	N/A	N/A	N/A
Closing net debt/(cash)		10,346	5,114	5,755	3,401	2,818	N/A	N/A	N/A

Source: Edison Investment Research. Note: *Top-line FY13 sales of €40m and EBITDA of around €7m have been reported, including €12m sales from EMCM, which will now appear as a discontinued operation. **Other in the cash flow includes capitalised development costs.

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