aap Implantate

Healthcare equipment & services

Progression of LOQTEQ portfolio

Q316 results highlighted a challenging quarter despite being broadly in line with company guidance (sales of €2.9m and an EBITDA loss of €1.8m). However, US sales were above company expectations (Q3: €0.7m, 9M: €2.0m) and are indicative that the initiatives put in place to drive sales in more established markets are beginning to prove fruitful. aap Implantate will need a solid Q4 to deliver on its FY16 revenue guidance, which it now expects to be at the lower end (€13.0-15.0m).

Q316 results

aap Implantate reported sales and EBITDA in line with its guidance. It reported sales of €2.9m (guidance €2.5-4.0m) and an EBITDA loss of €1.8m (guidance loss of €1.2-2.0m). EBITDA was burdened by one-time effects due to a customer receivables value adjustment (€0.2m) and termination of a licence agreement with the co-developer of the LOQTEQ technology (€0.3m, providing sustainable relief to earnings in the long term). This resulted in a recurring EBITDA loss of €1.3m. Importantly, initiatives to drive sales in established markets are beginning to demonstrate traction, with US sales higher than management expectations and customer access in the DACH region being extended. Progress remains tempered by the missing contribution to sales in China. Continued improvement in the US remains key to the growth trajectory and to the success of the LOQTEQ portfolio.

Key areas of technology progression

LOQTEQ, aap's proprietary anatomically shaped trauma plates, continues to grow its indication coverage, recently adding periprosthetic and polyaxial ankle systems. This is important as indication expansion will enable the company to build scale that can enable bundling offers, which in turn would enable surgeons to be consistent in their treatment approach and therefore drive more conversions to the technology. aap is also actively engaged with both the European and US regulatory authorities to gain CE marking and FDA approval respectively for its antibacterial silver coating technology. aap indicates that it expects progression in 2017.

Valuation: A year of change, with upside possible

Q3 results demonstrate that aap is executing on its strategy of becoming a trauma-focused company. 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. As the company continues to drive sales of LOQTEQ in western Europe and the US, alongside the stabilisation of sales in BRICS and SMIT countries and the implementation of cost reduction measures, we could see a return to sustained growth, which could attract M&A value.

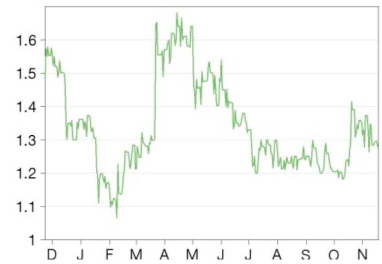
Historical financials

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 accounts

Price	**€1.27**
Market cap	**€39m**

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 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%. Results in 2016 are indicating an improvement, but risk remains in the execution of the strategy.
- 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 will not be fully demonstrated until FY16 and into 2017.

Analysts

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