Q3/2013 Report Conference Call

aap Implantate AG

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Highlights Q3 2013

- **Strong increase of Trauma and LOQTEQ® sales**
  - Trauma-growth in Q3 to 2.2Mio. € (Q3 2012: 1.5 Mio. €), and to 6.5 Mio. € in 9m (9m 2012: 4.0 Mio. €)
  - LOQTEQ® sales growth by 0.5 Mio. € to 1.1 Mio. € in Q3 2013 (Q3 2012: 0.6 Mio. €)
- **Working Capital**
  - Improvement of working capital ratio from 2.25 (30.9.2012) to 2.31
- **Debt reduction**
  - Reduction of net debt (interest bearing) from €4.3 million to €3.0 million
- **DCR and ICR improvements**
  - o DCR (trailing twelve months) improvement from 0.8 (31.12.2012) to 0.6
  - o ICR (trailing twelve months) improvement from 11.8 (31.12.2012) to 24.9

- **Strong Balance sheet figures**
  - Reduction of intangible assets percentage from 57 % (31.12. 2012) to 52 %
  - The capitalized services were reduced by €1.8 million from €21.9 million (31.12.2012) to €20.1 million
  - Balance sheet item property, rights and patents were reduced by €1.6 million from €2.5 million (31.12.2012) to €0.9 million

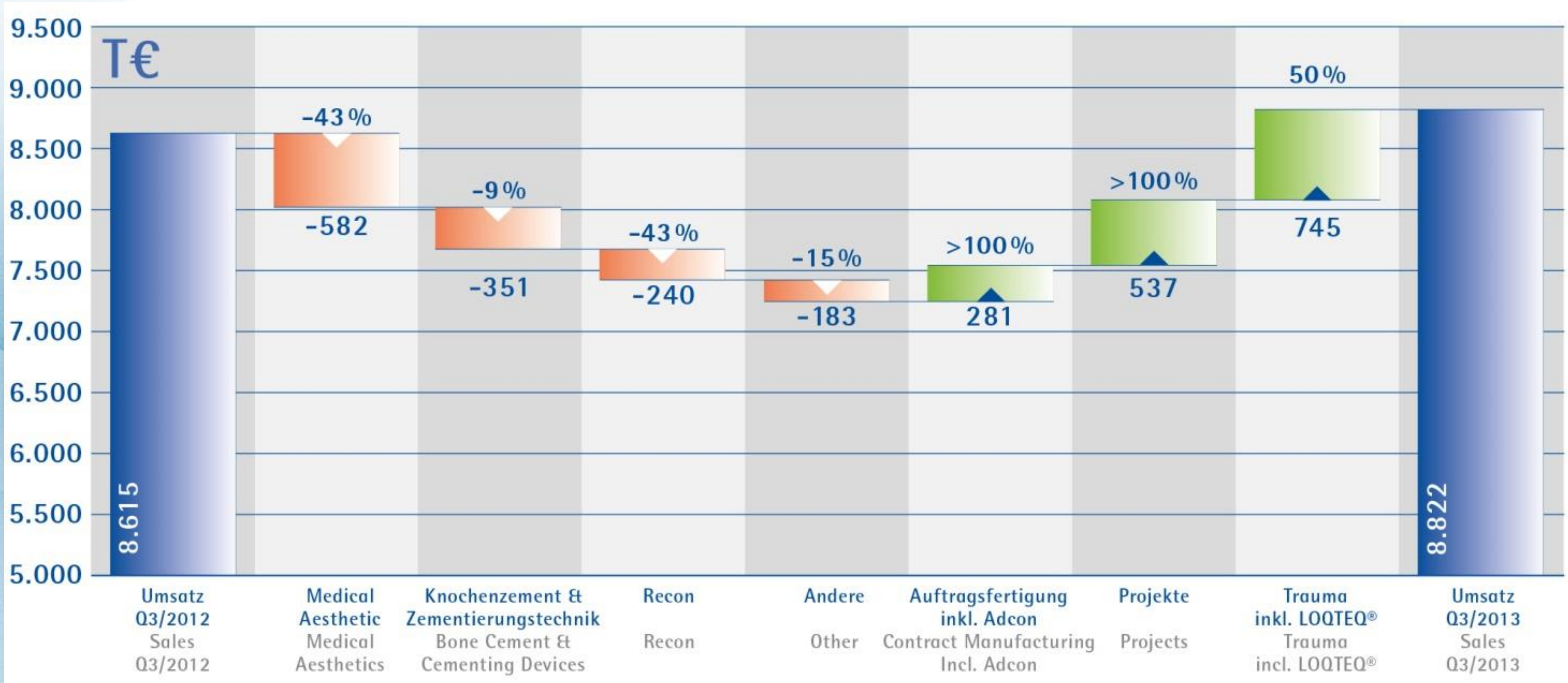
Financial Figures 9m/Q3 2013 (in € million)

	Q3/2012	Change	Q3/2013
Sales	8.6	2%	8.8
EBITDA	1.2	-12%	1.1
Cash-EBITDA	0.4	68%	0.7
Cash-EBT	-0.2	>100%	0.2

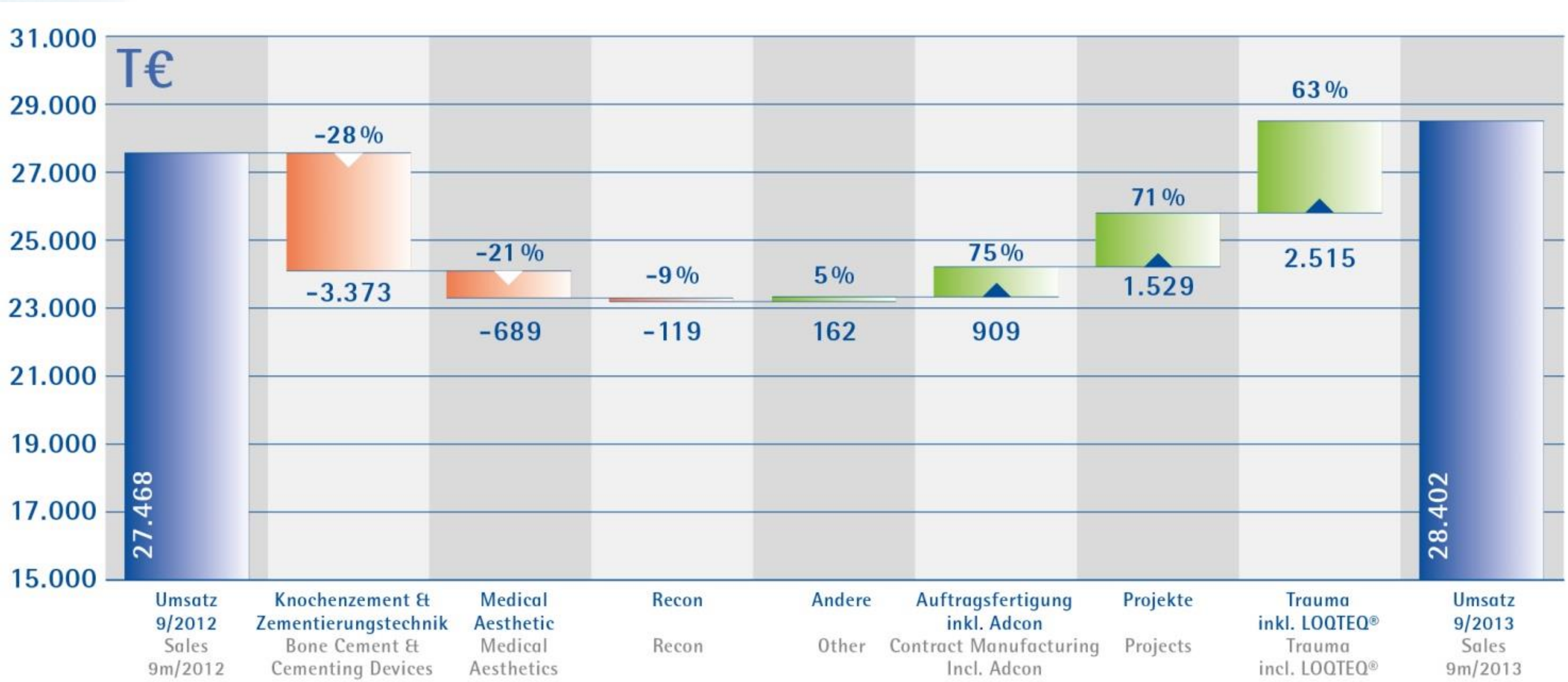
	9m/2012	Change	9m/2013
Sales	27.5	3%	28.4
EBITDA	4.8	11%	5.3
Cash-EBITDA	2.5	53%	3.8
Cash-EBT	0.8	>100%	2.4

Cash-EBITDA/EBT: EBITDA/EBT excluding capitalized development work and depreciation thereof

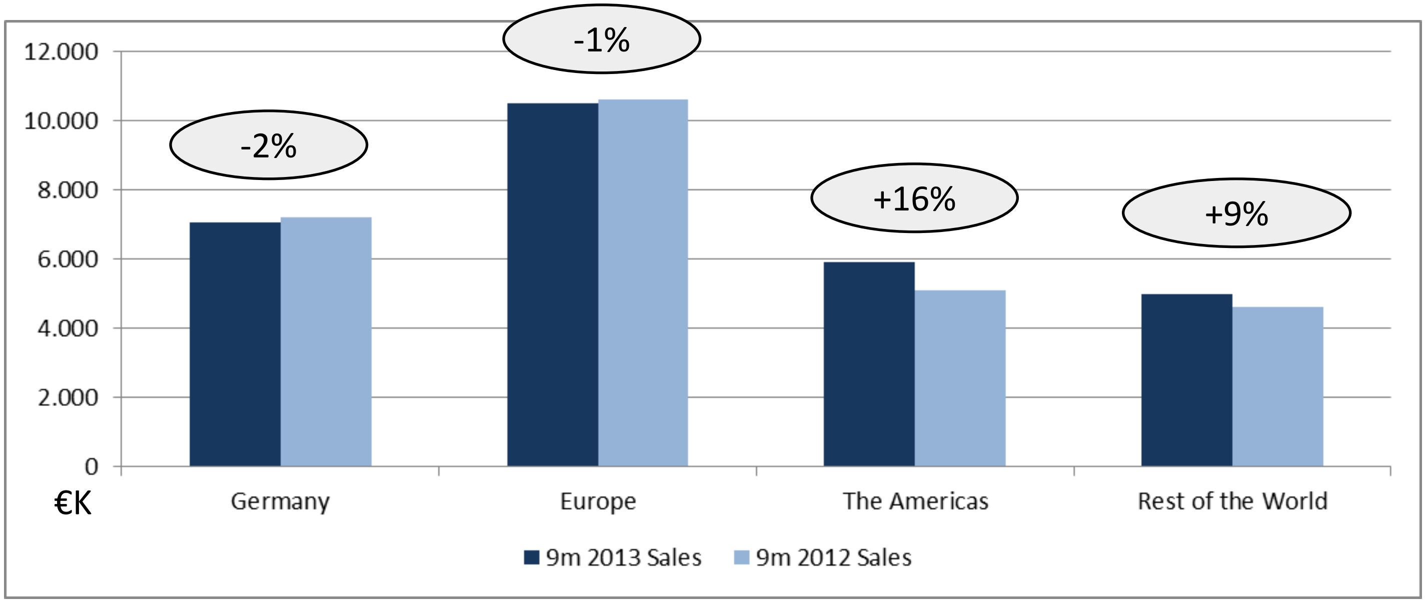
Sales-Bridge Q3/2013 vs. Q3/2012 (in €k)



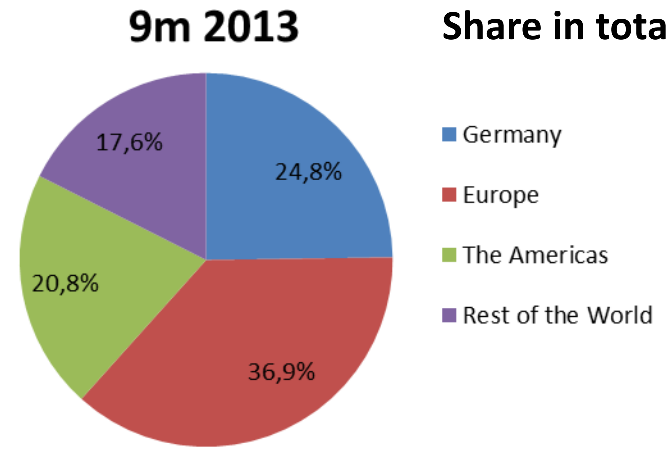
Sales-Bridge 9m/2013 vs. 9m/2012 (in €k)



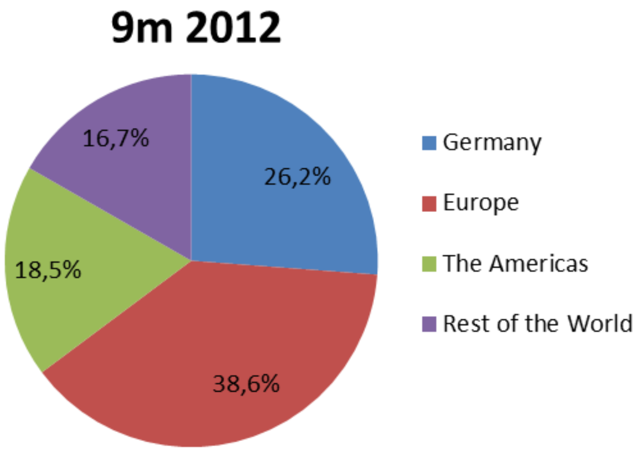
Sales Distribution 9m/2013 vs. 9m/2012



Share in total sales



Total sales 9m 2013: 28.402 €K



Total sales 9m 2012: 27.468 €K

Products & Markets

- International activities LOQTEQ®:
  - Distribution agreement with Saudi Arabian distributor
  - Delivering the first supply of LOQTEQ® products to distributor in Bulgaria
  - Beta-launch of LOQTEQ® in USA shows good acceptance
  - LOQTEQ® post marketing study - Initial reports demonstrate very promising fracture repair qualities and ease of use, including no reported cases of cold welding
- Status CE- and FDA-approval LOQTEQ®:
  - Product development and regulatory processes remain on track.
  - CE-approval for four of the six new LOQTEQ® plating systems (Phase 2), two of them already received FDA-approval
- Contract Manufacturing (Gels, Liquids and Bone materials):
  - Development of scCO2 based products is advancing and advanced negotiations for contracts with two companies

Research and development

- LOQTEQ®:
  - Development of six additional LOQTEQ®-plating systems remains on track
  - Covering approx. 80 % of the LOQTEQ®-indications after successful CE-approval
  - FDA-approval documents submitted – approval for all six systems expected for Q4 2013/Q1 2014
- Patents LOQTEQ®:
  - International (USA/EU) patent under examination procedure
- Silver-coating :
  - Initial approval-relevant animal experiments are proving successful
  - Samples taken from a first test group are undergoing evaluation, which is due to be completed by the end of 2013.
- Biomaterials/Trauma:
  - Magnesium alloys: collaboration with our Chinese partner is established and progressing according to plan

The LOQTEQ® Value Capture Concept

- of the $6.1 billion market, growing 6% per annum -

Better than others

Different than others

- **Innovation & Customer Benefit**
  - LOQTEQ®-technology
  - IP based
  - Mainstream as well as indication based trauma portfolio
  - Economic benefit: premium technology for less price

- **Positioning & Differentiation**
  - LOQTEQ® as "masstige" product
  - One hole-one-step-locking compression
  - No/substantially less "cold welding"
  - Infection prevention via Silver-coating
  - Resorbable Magnesium based implants

LOQTEQ®

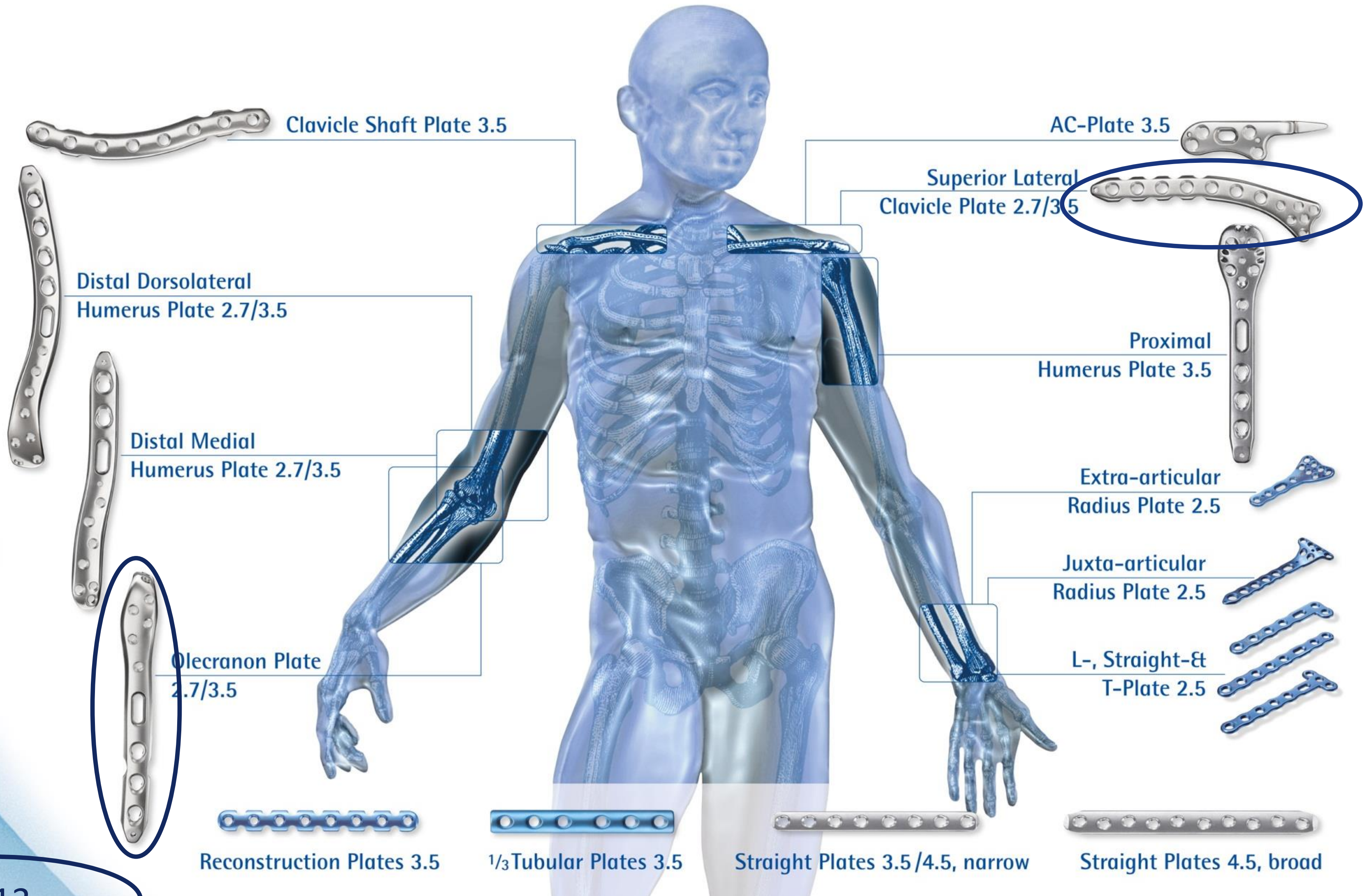
- **Key resources & core competencies**
  - In-house R&D, Manufacturing and own distribution network
  - Design, approval & manufacturing of
  - Plates & screws (titanium, stainless steel)
  - Silver-coated implants
  - Magnesium-based resorbable implants

- **Operational Excellence**
  - Gross margin improvement program
  - Product lifecycle management
  - Supply chain management
  - Customer relationship management

More intelligent than others

More efficient than others

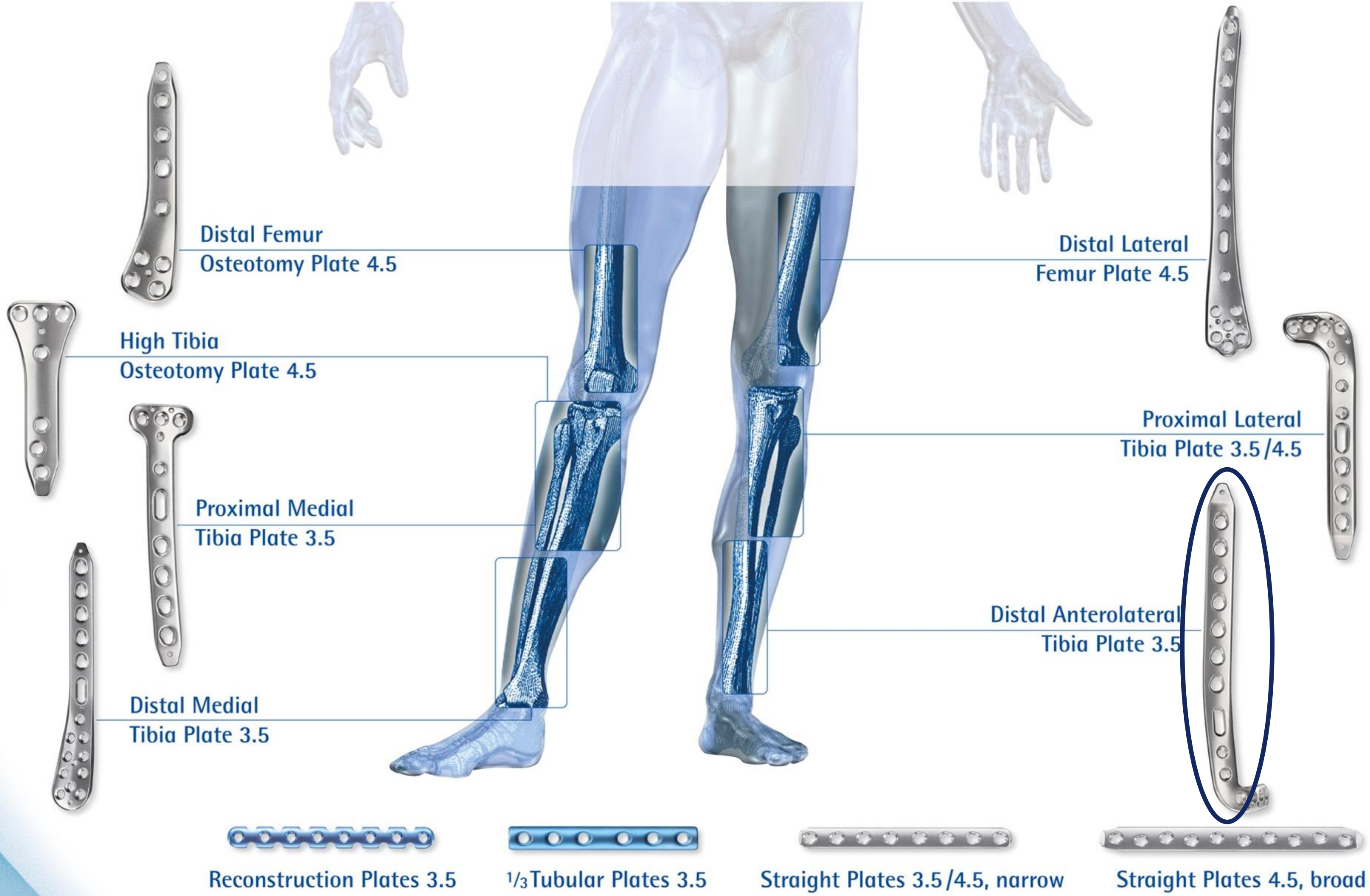
Upper Extremities - Plates 2013



2013

→ **LOQTEQ®-portfolio will cover approx. 80% of the most common indications**

Lower Extremities - Plates 2013



2013

→ **LOQTEQ®-portfolio will cover approx. 80% of the most common indications**

Highlights Q3 & 9M/2013 (P&L)

- Sales analysis –> refer to previous slides
- Gross Margin temporarily burdened (Sales/ Changes Inventory/ Material Expenses)
  - Adjusted cost of materials ratio (w/o effects from project business/sale of shares) higher in 9M/2013 with 32% (PY: 29%) and with similar ratio for Q3/2013
  - Change in product mix and sales structure with a material input → i.e. bone cement vs. trauma products
  - Non-recurring effect of €0.25 million in Q1/2013
  - Slight delays in building up capacity for our trauma products → to ensure full delivery capacity parts of production assigned to 3rd parties
- Significant increase in Other Operating Income
  - Slight increase in Q3/2013 from €0.2 million to €0.3 million, but significant change in 9M/2013 from €0.8 million to €3.8 million
  - Recognition of up-front payment under development and supply contract signed in Q1/2013
  - Effects from sales of 67% of share in *aap* Joints GmbH and resulting deconsolidation as of June 30, 2013

Highlights Q3 & 9M/2013 (P&L)

- Increased Personnel expenses
  - Q3/2013 with €3.5 million (Q3/2012: €3.4 million) while 9M/2013 with €10.7 million (PY: €10.1 million)
  - Employee numbers had risen to 288 (31.12.2012: 264)
  - Increase in personnel numbers primarily in production and allied areas in order to ensure higher production output
- Adjusted Other Operating Expenses (w/o effects from project business/sale of shares) in 9M/2013 with €7.3 million (PY: €7.4 million) and Q3/2013 with €2.4 million (PY: €2.6 million) were slightly lower
- Improved Financial result with high impact on full year
  - Q3/2013 with €-0.03 million (PY:€ -0.1 million) and 9M/2013 with €-0.1 million (PY:€-0.4 million)
  - Lower interest cost due to earlier repayment shareholder loans, lower usage credit facilities, better conditions negotiated based on 2012 numbers
- Change in result figures
  - EBITDA in Q3/2013 slightly lower with €1.1 million (PY: €1.2 million) while increased in 9M/2013 to €5.3 million (PY: €4.7 million)
  - Cash-EBT shows financial improvements with Q3/2013 of €0.2 million (PY: €-0.2 million) and with €2.4 million in 9M/2013 (PY: €0.8 million)

Highlights Q3 & 9M/2013 (Balance Sheet)

- Total assets Q3/2013: €69.5 million (Q4/2012: €68.6 million) → +1%
  - Non-current assets → €+0.3 million
    - Intangible assets down with €3.5 million! → Adcon® deal (€-1.5 million); Recon deal (€-1.5 million); project deal (€-0.7 million) and net effect capitalization development cost €0.4 million → Intangible assets now 52% of total assets (Q4/2012: 57%)
    - Tangible assets up with €2.4 million; mainly investments in capacity expansion trauma business
  - Current assets → €+0.5 million
    - Inventories €-2.2 million; Trade receivables €+4.0 million (of which €+2.0 million project related); Cash €-1.3 million
  - Equity → €+2.7 million
    - Positive result in 2012 and 2013
  - Debts → €-1.8 million
    - "Repayment" credit facilities: €-3.0 million; Financing capacity expansion Berlin: €+1.4 million
    - Repayment shareholder loans €-0.8 million; Shareholder loan to *aap* Joints GmbH €-0.1 million; Lower advanced payment €-0.2 million; Accounts payable €+0.5 million; Other liabilities €+0.5 million
- Operating Working Capital (w/o projects): €13.9 million (Q4/2012: €14.7 million); WC-turn 2.4
- Net Debt Q3/2013: €3.0 million (Q4/2012: €4.3 million) → -30%
- Cash & Cash equivalents Q3/2013: €2.4 million (Q4/2012: €3.7 million) → -35%

Highlights Q3 & 9M/2013 (Cash Flow)

- Operating CF 9M/2013: €1.9 million (PY: €6.1 million) → -68%
  - Higher net income of €0.8 million through profitable growth, but change in working capital of €-4.5 million
  - Significant higher trade receivables: €-4.0 million (of which €-2.0 million projects Adcon® and POC receivables)
  - Higher inventory: €-0.2 million; reduction from Recon deal presented under Gains from retirement fixed assets
  - Lower trade payables and advanced payments: €-0.5 million (€-0.2 million advanced payments from customers; €0.8 million not paid investments as correction in comparison to Balance Sheet)
- Investing CF 9M/2013: €-0.7 million (PY: €-3.5 million) → +80%
  - Investments 2013: €-4.0 million; Intangibles €-1.5 million; machinery and other equipment €-2.5 million
  - Cash-Inflow SPA *aap* Joints GmbH (Recon)/*aap* BM production GmbH: €+2.5 million and €+0.8 million
- Financing CF 9M/2013: €-2.5 million (PY: €-1.5 million) → +67%
  - "Repayment" credit facility: €-3.0 million → lower usage
  - Redemption shareholder loans 2013: €-0.8 million
  - New financing loans machinery: €+1.4 million
  - Ordinary redemption financing machinery: €-0,1 million
- Cash 9M/2013: €2.4 million (Q4/2012: €3.7 million) → -35%
- Liquidity reserves (Cash and free Credit facilities): €6.7 million (Q4/2012: €4.9 million) → +33%

Outlook 2013/2014

- **Outlook Q4/2013**
  - Sales: between €10.5 million and €11.6 million
  - EBITDA: between €1.3 million and €1.7 million
- **Outlook 2013:**
  - Confirming total sales: approx. €40 million (+10%)
  - EBITDA: approx. €7 million (+15%)
  - LOQTEQ® total sales in 2013 of approx. €5.0 million, total Trauma sales: €10 million
  - Further license and supply agreements in the bone cement and cementing techniques segment
  - Improvement of the Freshness Index to at least 20%
  - Launching remaining 2 LOQTEQ®-Product line extensions
  - Confirming evaluation of strategic options for EMCM
- **First Outlook 2014:** 10% sales increase with stronger EBITDA growth of 15%

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