



# **Q3/2014 Report - Conference Call**

**Berlin, November 17, 2014**

***aap* Implantate AG**

**Bruke Seyoum Alemu, CEO**

**Marek Hahn, CFO**

# Highlights Q3/2014

- Financial targets achieved: Q3 sales of EUR 7.8 million at the upper end of the forecast made at the beginning of the quarter; EBITDA target exceeded at EUR 0.8 million
- Trauma sales in Q3/2014 totaling EUR 3.3 million (+48 %), increasing by 29% in the first nine months on the previous year
- LOQTEQ® sales in Q3/2014 were 110% up on the previous year (EUR 1.1 million), increasing by 68% in the first nine months to EUR 5.3
- Receipt of the notice of allowance from the US Patent and Trademark Office for core patent claims in respect of our LOQTEQ® system
- Silver technology: Further scheduled progress and keen interest shown by globally active medical technology enterprises
- Evaluation of strategic options for *aap* Biomaterials GmbH: intensive talks with selected potential strategic partners and private-equity investors; *aap*'s objective to complete a transaction in the 1<sup>st</sup> quarter of 2015 at the latest
- Strong net liquidity position of EUR 10 million (31.12.2013: net debts of EUR 3.4 million)

# Financial Figures Q3/2014 und 9M/2014

(in € million)

- Operative Performance: continued business operations (normalized\*)

In EUR million	Q3/2014	Q3/2013	Change on year
Sales	7.8	5.8	34%
EBITDA	0.8	0.3	>100%

\*Sales/EBITDA excluding one-off effects of equity disposals and one-off costs in connection with strategic measures and project proceeds and costs incurred in connection with them

In Mio. EUR	9M/2014	9M/2013	Change on year
Sales	21.8	16.9	29%
EBITDA	1.3	-1.3	>100%

\*Sales/EBITDA excluding one-off effects of equity disposals and one-off costs in connection with strategic measures and project proceeds and costs incurred in connection with them

- EBITDA/EBIT development (highly) affected by project / one-time effects in both periods:
  - Q3/2014: € 0 million, 9M/2014: € 1.1 million
  - Q3/2013: € 0.3 million, 9M/2013: € 4.5 million

# Financial Figures Q3/2014 and 9M/2014

(in € million)

## – Group (continued business operations)

In EUR million	Q3/2014	Q3/2013*	Change on year
Sales	7.8	6.3	23%
EBITDA	0.8	0.6	27%
EBIT	0.2	0.1	66%

\*Figures relate solely to continuing operations, with previous year's figures adjusted accordingly.

In EUR million	9M/2014	9M/2013*	Change on year
Sales	22.1	19.0	16%
EBITDA	2.4	3.2	-24%
EBIT	0.8	1.7	-55%

\*Figures relate solely to continuing operations, with previous year's figures adjusted accordingly.

## – Group total

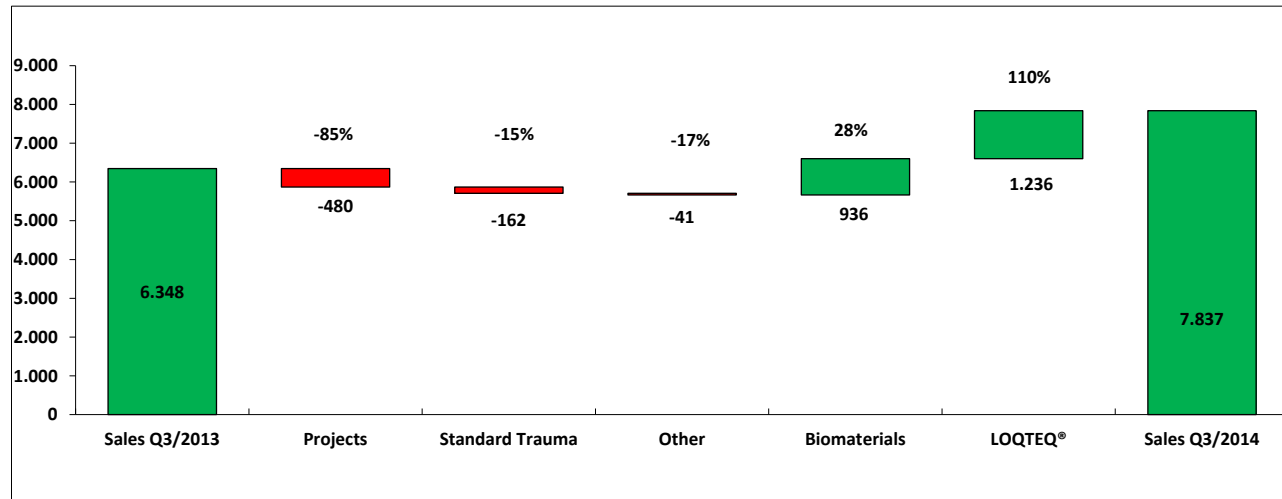
In EUR million	9M/2014*	9M/2013**	Change on year
Sales	23.0	28.4	-19%
EBITDA	2.4	5.3	-54%
EBIT	0.8	3.0	-73%

\*EMCM B.V. included for 01-02/2014

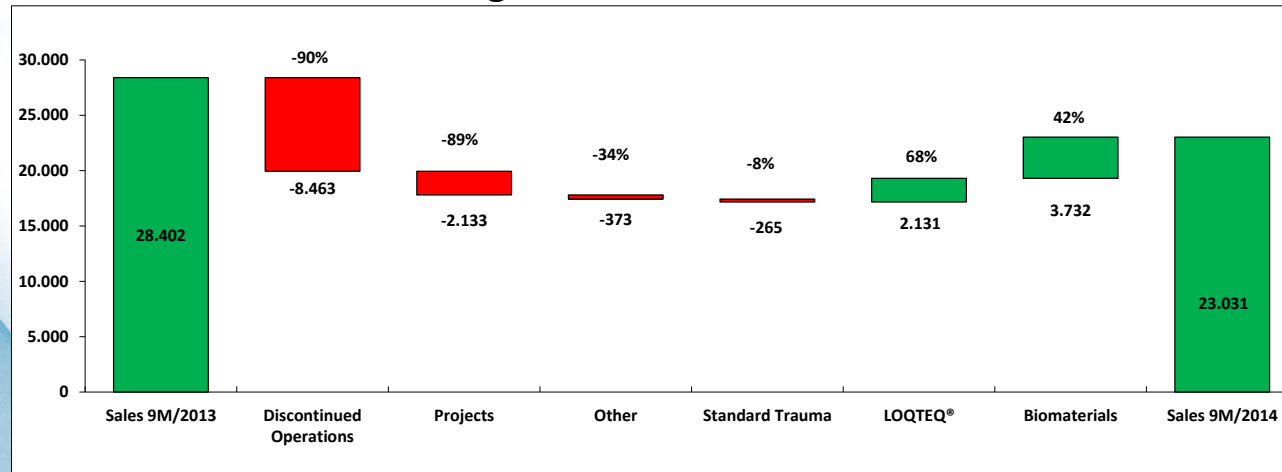
\*\* EMCM B.V. included for 01-09/2013

# Sales Bridge

## Sales Bridge Q3/2013 vs. Q3/2014



## Sales Bridge 9M/2013 vs. 9M/2014



# LOQTEQ® Products & Markets

- LOQTEQ® Performance
  - Trauma sales in Q3 generated mainly from existing customers
  - Sales driver 9M/2014: China, Turkey, Russia, Spain, Bulgaria, Germany and Puerto Rico
- LOQTEQ® development, regulatory and IP status
  - Product development for portfolio extension and regulatory processes remain on track
  - Continuous filing of registration documents for new LOQTEQ® products as line extension progresses
  - Receipt of the notice of allowance from the US Patent and Trademark Office for core patent claims in respect of our LOQTEQ® system; other international (USA/EU) patents under examination procedure
  - Brazilian approval authority conducted audit in Berlin beginning October; expected approval to be granted in the next months ahead

# Research and Development

- LOQTEQ®:
  - Portfolio extension LOQTEQ®-plating systems remains on track
    - » Phase III: periprosthetic plating system, polyaxial radius plates and further systems for lower and upper extremities
    - » Two further plates for LOQTEQ® clavicle plate system completed; entire clavicle system on the market in December 2014
  - Phase II: coverage of approx. 80 % of the LOQTEQ®-indications after successful CE-approval
  - Phase III: indication coverage extension to approx. 90%
- Silver-coating :
  - Phase I: animal trials conducted with very promising results
  - Initial approval-relevant animal experiments are promising
    - » No indications for local or systemic toxic effects (6 months group)
    - » No accumulation of silver in analysed organs (4 weeks group)
    - » Visible positive trend of biofilm reduction (preliminary infection model)
  - Next major milestone:
    - » Start of extended CE-relevant animal trial with renowned US laboratory in Q1/2015; Our aim: CE-approval by end of 2015

# Highlights Q3/2014 (P&L)

- Sales analysis → refer to previous slides
- Further comments focus on continued operations
- Gross Margin declined (Sales/ Changes Inventory/ Material Expenses)
  - Adjusted cost of materials ratio (w/o effects from project business) higher in Q3/2014 with 37% (PY: 35%); same development applies for 9M yoy comparison
  - Change in product mix and sales structure → i.e. bone cement vs. trauma products
  - Substantial increase in external services required temporarily to ensure ability to supply
  - Increase in inventories → stock building in Trauma (ability to supply) and higher volumes in Biomaterials (orders in progress for Q4 and Q1/15)
- Increase in Other Operating Income
  - Slight increase Q3/2014 from €0.3 million to €0.4 million
  - 9M/14 decrease from €3.6 million to €2.2 million
    - 9M/2014: €1 million from divestment of remaining shareholding in aap BM production
    - Up-front payment project deal Q1/13 (€2.2 million); Divest 67% shares in JV Recon Q2/13 (€ 0.8 million)



# Highlights Q3/2014 (P&L)

- Increased Personnel expenses
  - Number of employees continued operations up from 215 (12/2013) to 224 with increased expenses of €2.8 million in Q3/14; 9M/14 increase from €8.4 million to €8.8 million
  - FY 2014 personnel expenses will increase driven by new hiring's in production and related areas and in sales/marketing
- Higher Other Operating Expenses
  - Q3/2014 no change to previous year (€2.3 million); 9M/2014 up with €0.4 million to €6.8 million
  - Q1/2014 OOE include €1.0 million disposal cost in connection with sales of Dutch subsidiary EMCM
  - Development continued operations mainly due to capacity expansion Berlin, marketing and sales cost further market roll-out LOQTEQ®, related legal and consulting cost US-deal bone cement, cost related to strategic measures
- Further improved Financial result
  - Q3/2014 continued operations with €-0.02 million (PY: €-0.04 million); 9M/14: €-0.08 million (PY: €-0.1 million)
  - Improvement due to only very limited use of credit facilities beginning of the year
- Change in result figures highly affected project deals/one-time effects
  - EBITDA in Q3/2014 with €0.8 million higher than Q3/2013 with €0.6 million; 9M/14 from €3.2 million to €2.4 million
  - Healthy operational development continued operations (w/o projects/one-timer): From €0.3 million to €0.8 million for Q3 and from €-1.3 million to €1.3 million in 9M
  - Impact from projects/one-timer: Q3/14: €0.0 & 9M/14: €1.1 million; Q3/13: €0.3 million and 9M/13: €4.5 million

# Highlights Q3/2014 (Balance Sheet)

- Total assets Q3/2014: €60.8 million (Q4/2013: €65.2 million) → -7%
  - Non-current assets: €+3.5 million
    - Capacity expansion Trauma required Investments in tangible assets
    - Relative share of intangible assets significantly reduced to 24% of total assets! → 12/2012: 57%; 03/2013: 54%
  - Current assets → €-7.9 million
    - Inventories €+1.3million → stock building Trauma ensuring ability to supply; increased order volume Biomaterials
    - Trade receivables €+0.3 million → strong quarter-end with high level of sales in Sep 2014
    - Cash rose to €15.4million after receipt of purchase price EMCM B.V.
  - Equity → almost unchanged
    - Effects from stock options in capital reserve → €-1.0 million
    - Positive net result 9M/2014 → €0.7 million
  - Debts → €-4.3 million
    - Increase financial liabilities bank net: €1.2million (mainly low interest bearing long-term investment loans)
    - Trade payables €-1.0 while other financial liabilities €-0.2 million (mainly due to bonus payments) and other liabilities €+0.2 million (accruals o/s holiday and tax liabilities employees)
    - €6.0 million deconsolidation effect Dutch subsidiary EMCM
- Working Capital: €16.5 million (Q4/2013: €13.9 million); WC-turn TTM (sales): 2.5
- Net Cash Q3/2014: €10.0 million! (Net debt Q4/2013: €3.4 million) → Strong cash basis

# Highlights 9M/2014 (Cash Flow)

- Operating CF 9M/2014: €-3.3 million (PY continued operations: €0.9 million)
  - Positive net result of €0.7 million
  - Cash-outflow from increase of trade receivables €-0.3 million and financing inventory €-1.3 million and reduction of liabilities €-1.5 million
  - Cash settlement stock options (2008/2010): €-1.2 million
- Investing CF 9M/2014: €15.7 million (PY continued operations: €-0.1 million)
  - Investments 9M/2014: €-3.3 million; machinery and other equipment €-2.2 million; intangibles €-1.2 million
  - Cash inflow investment grants €+0.5 million; divestment stake in JV Dental €+1.0 million
  - Cash inflow sale EMCM €18.0 million; €-0.9 million net cash disposed; €+0.5 million dividend received
- Financing CF 9M/2014: €0.6 million (PY continued operations: €-2.7 million)
  - “Repayment” credit facility: €-0.8 million → no usage
  - Redemption financing machinery: €-0.8 million also by using received investment grants
  - New long-term loans financing machinery: €+2.2 million
- Cash Q3/2014: €15.4 million (Q4/2013: €1.6 million)
- Liquidity reserves (Cash and free Credit facilities): €20.0 million (Q4/2013 continued operations: €5.3 million)

# Outlook 2014

- **Outlook 2014:**
  - Strong sales growth with focus on Trauma business
  - Sales revenue: target corridor between €30 million and €34 million (PY: €28.6 million) for continued operations
  - EBITDA between €2 million and €4.5 million for continued operations
- **Further step of transformation:**
  - Further steps expected with regards to the divestment of aap Biomaterials GmbH
  - Transaction to be completed in the first quarter of 2015 at the latest

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