



# **Q1/2014 Report - Conference Call**

Berlin, May 16, 2014

***aap* Implantate AG**

Bruke Seyoum Alemu, designated CEO

Marek Hahn, CFO

## Financial Figures Q1/2014 (in € million)

- Group (Total, incl. EMCM for two months of 2014)

In € million	Q1/2014	Q1/2013	Change
Sales	7.1	10.4	-31 %
EBITDA	0.1	3.1	-96 %
EBIT	-0.4	2.3	k. A.

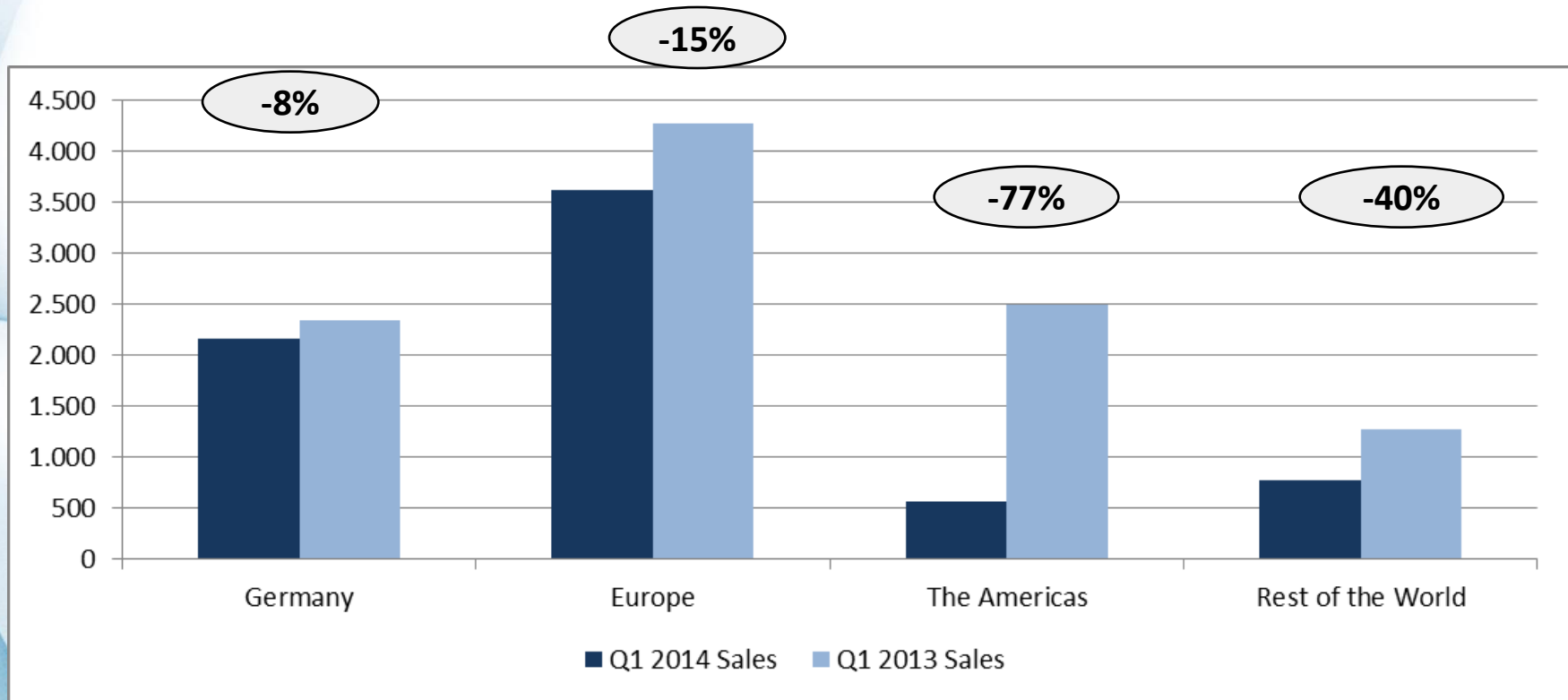
- Continued operations (without projects)

In € million	Q1/2014	Q1/2013	Change
Sales	6.1	4.6	33 %
EBITDA	0.1	-1.1	>100 %
EBIT	-0.4	-1.6	75 %

# Highlights Q1 2014

- Strong sales growth of the Trauma/LOQTEQ® product portfolio: +47% (from EUR 1.5 million to EUR 2.2 million)
- LOQTEQ® growth stand alone of +175%
  - Sale driver were: Russia, Turkey, Italy, Spain, Czech Republic and Bulgaria
- Divestment of the non core contract manufacturing subsidiary EMCM for EUR 18 million, one further step toward becoming a pure Trauma company
- Usage of EMCM-Deal proceedings:
  - Accelerated organic growth in Trauma/LOQTEQ® via portfolio and distribution channel expansion in the Trauma/LOQTEQ® area
  - strategic acquisitions to expand Trauma business
  - potential share buy back program
- US patent on silver coating received

# Sales Distribution Q1/2014 vs. Q1/2013



# Products & Markets

- Market activities LOQTEQ®:
  - Sales driver in Q1/2014: Russia, Turkey, Italia, Spain, Czech Republic and Bulgaria
  - LOQTEQ® post marketing study - Initial reports demonstrate very promising clinical performance during explantation, no reported cases of cold welding
- Status IP, CE- and FDA-approval LOQTEQ®:
  - Product development and regulatory processes remain on track
  - Continuous filing of registration documents for new LOQTEQ® products as line extension progresses
  - Patent for silver coating received in the US
  - Filing of registration documents for new LOQTEQ® products in countries such as Russia, Iran, Iraq

# Research and development

- LOQTEQ®:
  - Portfolio extension LOQTEQ®-plating systems remains on track
    - » Phase 3: periprothetic plating system, polyaxial radius plates and further systems for lower extremities
  - Coverage of approx. 80 % of the LOQTEQ®-indications after successful CE-approval (Phase 2)
    - » Approx. 90 % with phase 3
- Patents LOQTEQ®:
  - International (USA/EU) patent under examination procedure
- Silver-coating :
  - Initial approval-relevant animal experiments are promising, results report expected in Q2/2014
    - » No indications for local or systemic toxic effects (6 months group)
    - » No accumulation of silver in analysed organs (4 weeks group)
- Biomaterials/Trauma:
  - Magnesium alloys: collaboration with our Chinese partner is established and progressing according to plan
    - » Selection of active material and preferred coating are under review

# Highlights Q1/2014 (P&L)

- Sales analysis → refer to previous slides
- Further comments concentrate on continued operations
- Gross Margin improved (Sales/ Changes Inventory/ Material Expenses)
  - Adjusted cost of materials ratio (w/o effects from project business in Q1/2013) lower in Q1/2014 with 38% (PY: 40%)
  - Change in product mix and sales structure → i.e. bone cement vs. trauma products
  - Increase in inventories → stock building in Trauma to ensure ability to supply and higher volumes in Biomaterials (orders in progress for Q2 and Q3)
- Significant decrease in Other Operating Income
  - Strong decrease Q1/2014 from €2.6 million to €1.6 million, continued operation from €2.5 million to €0.3 million
    - Deconsolidation effect of €1.3 million
    - Recognition of up-front payment under development and supply contract signed in Q1/2013 (€2.2 million) → without this effect OOI remained unchanged with €0.3 million

# Highlights Q1/2014 (P&L)

- Slightly declined Personnel expenses
  - Sale of contract manufacturing business number of employees fell from 290 (12/2013) to 217
  - Number of employees continued operations slightly up from 215 (12/2013) to 217 with almost similar expenses of €2.9 million
  - FY 2014 personnel expenses will increase driven by new hirings in production and related areas and in sales/marketing
- Slightly increased Other Operating Expenses
  - Q1/2014 OOE include €1.0 million disposal cost in connection with sales of Dutch subsidiary EMCM
  - Continued operation OOE rose from €1.9 million to €2.1 million mainly in connection with capacity expansion Berlin, marketing and sales cost further market roll-out LOQTEQ®
- Further improved Financial result
  - Q1/2014 continued operations with €-0.03 million (PY: €-0.1 million)
  - Reduction in interest-bearing liabilities from €5.0 million (12/2013) to €3.9 million
- Change in result figures highly affected by Q1/2013 project deals
  - EBITDA in Q1/2014 with €0.1 million significantly lower than Q1/2013 with €3.1 million
  - No EBITDA effect from deconsolidation of Dutch EMCM since goodwill had been written off in Q4/13 with €4.0 million
  - Impact from license and supply agreement(s) in Q1/13: €3.6 million for *aap*-Group; €3.5 million for continued ops
  - Same development for continued operations: From €2.4 million to €0.1 million
  - Healthy operational development continued operations (w/o projects): From €-1.1 million to €0.1 million



# Highlights Q1/2014 (Balance Sheet)

- Total assets Q1/2014: €60.0 million (Q4/2013: €65.2 million) → -9%
  - Non-current assets: €+0.3 million → no material change
    - Relative share of intangible assets significantly reduced to 25% of total assets! → 12/2012: 57%; 03/2013: 54%
  - Current assets → €-8.6 million
    - Inventories €+1.1 million → stock building Trauma ensuring ability to supply; increased order volume Biomaterials
    - Trade receivables €-2.1 million → strong 4<sup>th</sup> quarter with high level of sales in Dec 2013; cash inflow in Q1/2014
    - Other financial assets up from €1.4 million to €7.3 million → outstanding purchase price installment of €6.0 million for sales of Dutch subsidiary → inflow by end of April 2014
    - Cash rose to €11.1 million after receipt of 2 installments of the purchase price EMCM B.V.
  - Equity → €-0.9 million
    - Effects from stock options in capital reserve → €-0.5 million
    - Negative net result Q1/2014 → €-0.4 million
  - Debts → €-7.5 million
    - Reduction financial liabilities bank: €-1.0 million (mainly credit facilities)
    - Trade payables €-0.4 while other financial liabilities €-0.5 million and other liabilities €+0.5 million mainly due to bonus payments
    - €6.0 million deconsolidation effect Dutch subsidiary EMCM
- Working Capital: €13.1 million (Q4/2013: €13.9 million); WC-turn 2.8
- Net Cash Q1/2014: €7.2 million! (Net debt Q4/2013: €3.4 million) → Strong cash basis

# Highlights Q1/2014 (Cash Flow)

- Operating CF Q1/2014: €-1.5 million (PY continued operations: €-0.5 million)
  - Negative net result of €-0.4 million
  - Cash-inflow from decrease of trade receivables €+2.1 million while financing inventory €-1.1 million and reduction of liabilities €-1.2 million
  - Cash settlement stock options (2008): €-0.5 million
- Investing CF Q1/2014: €11.2 million (PY continued operations: €-0.4 million)
  - Investments Q1/2014: €-0.3 million; machinery and other equipment €-0.5 million
  - Cash inflow investment grants €+0.5 million
  - Cash inflow sale EMCM €11.6 million: 2 purchase price installments €+12.0 million; €-0.9 million net cash disposed; €+0.5 million dividend received
- Financing CF Q1/2014: €-1.1 million (PY continued operations: €+0.02 million)
  - “Repayment” credit facility: €-0.8 million → no usage
  - Redemption financing machinery: €-0.5 million also by using received investment grants
  - New loans financing machinery: €+0.2 million
- Cash Q1/2013: €11.1 million (Q4/2013: €1.6 million)
- Liquidity reserves (Cash and free Credit facilities): €15.6 million (Q4/2013 continued operations: €5.3 million)

# Outlook 2014

- **Outlook 2014:**
  - Strong sales growth with focus on Trauma business
  - Sales +22% to €35 million (PY: €28.6 million) for continued operations
  - EBITDA between €5 million to €6 million (0% to +20%)
  - Trauma sales >€15 million (>50%)
- **Outlook Q2/2014:**
  - Sales of €7.6 million to €8.2 million (Q2/2013 excl. EMCM: €6.6 million)
  - EBITDA between €1 million to €1.5 million (Q2/2013 excl. EMCM: €0.2 million)
- **Further step of transformation: Investment Bank hired to assist the divestment of *aap* Biomaterials GmbH**

# Management Agenda 2014

Customer
Growing Trauma sales to EUR >15 million (>50%); driven by LOQTEQ®
Expanding the LOQTEQ® portfolio; striving for >90% indication coverage
Appointing a distributor in the USA and further expansion of distribution network beyond BRICS- and SMIT-countries
Appointing a new global Partner for a bone cement

Innovation
Sustain Freshness index of at >20%
Accelerate the development of silver-coated Trauma products; aiming for market introduction in 2015
Extend co-development network for resorbable magnesium products; aiming for market introduction in 2-3 years
Interim analysis of the LOQTEQ® study for phase 1 products in the second quarter of 2014

# Management Agenda 2014

## Financials

Profitable growth: sales of € 35 million (+22%) and EBITDA between € 5 million and € 6 million

Working capital ratio > 2.4 (in relation to sales)

Strengthening the balance sheet by ongoing reduction of the percentage of intangible assets as of the balance sheet total

DCR < 3 and ICR > 8

## Organisation/IT

Further improvements of the ERP functionality

Optimization of supply chain management with a focus on Trauma products

Divestment/out licensing of non-core products and IP

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