



aap Implantate AG

Q3/9M 2018 Report Conference Call

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Berlin, November 14, 2018

Safe Harbor Statement

Our publication may include predictions, estimates or other information that might be considered forward-looking. While these forward-looking statements represent our current judgment on what the future holds, they are subject to risks and uncertainties that could cause actual results to differ materially. You are cautioned not to place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this presentation. Please keep in mind that we are not obligating ourselves to revise or publicly release the results of any revision to these forward-looking statements in light of new information or future events. Throughout today's discussion, we will attempt to present some important factors relating to our business that may affect our predictions.

Key results and progress Q3/2018 and 9M/2018

➤ Sales and Earnings

- Q3 sales (EUR 2.7 million) and EBITDA (EUR -1.5 million) in line with guidance
- Q3 trauma sales +7% yoy, 9M trauma sales +6% yoy
- Continued positive development in focus market Germany (+8% yoy in Q3, +12% yoy in 9M) and international business (+28% yoy in Q3 and 9M)
- FY/2018 guidance adjustment primarily due to sales development in North America lagging behind expectations
 - Distribution business: temporarily burdened by loss of certain distributors (12 additional distributors recruited in Q3 to regain momentum)
 - Global partner business: No further contracts signed in FY/2018 to date (Negotiations ongoing and closing likely to be postponed to FY/2019)

➤ Gross margin and costs

- Gross margin¹ remains at a good level with 80% in Q3 and 78% in 9M
- Slight increase in personnel costs; overall declining trend in other expenses in 9M

➤ Cash flow and balance sheet

- Cash need in 9M of EUR 6.0 million
- Cash holdings of EUR 10.3 million²; continued high equity ratio of 83%

¹ In terms of sales revenues, changes in inventories of finished goods and work in progress and cost of purchased materials and services.

² In the consolidated balance sheet of 09/30/2018 EUR 7.3 million is stated as cash and cash equivalents, while cash with banks totalling EUR 3.0 million is shown under current and non-current other financial assets as it was pledged to secure financial liabilities respectively cash payments were made to secure bank guarantees granted to third parties.

Key results and progress Q3/2018 and 9M/2018

➤ LOQTEQ®

- Working on European approval of various polyaxial LOQTEQ® systems
- Development of sterile packaging for implants
- Adaption of processes and documents to new regulatory requirements
- Approval applications submitted to FDA (foot and periprosthetic system)

➤ Silver coating technology

- Convincing results of animal study with AO Research Institute Davos as milestone on the way to a human clinical study
- EUR 0.7 million funding from Federal Ministry of Education and Research for preparation of human clinical study; promising prerequisite for further funding
- Advanced stage towards finalizing the required validations and submission documents for approval of the planned human clinical study – study start targeted for H1/2019

Financial Figures Q3/2018

(in KEUR)

Sales (reported)	Q3/2018	Q3/2017	Change
Trauma	2,763	2,574	+7%
Germany	688	639	+8%
North America	536	733	-27%
<i>North America Distributors</i>	529	625	-15%
<i>North America Global Partners</i>	7	108	-94%
International	1,539	1,202	+28%
Other (mainly discontinued activities in FY/2017)	-27	21	<-100%
Sales	2,736	2,595	+5%

Sales (constant exchange rates)	Q3/2018	Q3/2017	Change
Trauma	2,763	2,574	+7%
Other (mainly discontinued activities in FY/2017)	-27	21	<-100%
Sales	2,736	2,595	+5%

EBITDA	Q3/2018	Q3/2017	Change
EBITDA	-1,475	-1,567	+6%

Financial Figures 9M/2018

(in KEUR)

Sales (reported)	9M/2018	9M/2017	Change
Trauma	8,238	7,785	+6%
Germany	2,080	1,849	+12%
North America	1,687	2,450	-31%
<i>North America Distributors</i>	1,626	1,877	-13%
<i>North America Global Partners</i>	61	573	-89%
International	4,471	3,486	+28%
Other (mainly discontinued activities in FY/2017)	-66	249	<-100%
Sales	8,172	8,034	+2%

Sales (constant exchange rates)	9M/2018	9M/2017	Change
Trauma	8,366	7,785	+7%
Other (mainly discontinued activities in FY/2017)	-66	249	<-100%
Sales	8,300	8,034	+3%

EBITDA	9M/2018	9M/2017	Change
EBITDA	-4,593	-4,875	+6%

Highlights 9M/2018 (Balance Sheet)

- Total assets 09/30/2018: EUR 44.6 million (12/31/2017: EUR 50.5 million) → -12%
 - Non-current assets: almost unchanged, but countervailing effects
 - Capitalized development costs: EUR +1.0 million
 - Share of intangible assets in total assets: 29%
 - Tangible assets: EUR -0.4 million → lower investment against usual depreciation in 9M/2018
 - Current assets: Change EUR -6.2 million
 - Inventories: EUR -0.3 million → sales partially realized out of existing stock
 - Trade receivables: stable DSO of 94 days in 9M/2018 (FY/2017: 85 days)
 - Other financial assets: EUR -0.3 million → reduction of cash blocked as security for non-current financial liabilities
 - Cash and cash equivalents: EUR -6.0 million to EUR 7.3 million
 - Equity: EUR 37.2 million (12/31/2017: EUR 42.6 million)
 - Net result 9M/2018: EUR -5.5 million
 - Equity ratio: 83% (12/31/2017: 84%)
 - Liabilities: Change EUR -0.5 million
 - Financial liabilities: EUR -0.3 million → repayment of loans
 - Trade liabilities increased to EUR 2.1 million (12/31/2017: EUR 1.8 million)
 - Other financial liabilities: EUR -0.6 million → EUR -0.2 million repayment finance lease, EUR -0.2 million payment for *aap* Joints deal and EUR -0.2 decrease in accruals
 - Provisions: EUR -0.2 million → utilization and allowance for legal costs and bonus 2017
 - Other liabilities: EUR +0.3 million → personnel related

Highlights 9M/2018 (Cash Flow)

- Operating Cash Flow 9M/2018: EUR -3.7 million (9M/2017: EUR -4.4 million)
 - Improved operating result (EBIT)
 - Positive contribution from working capital of EUR 0.3 million → reduction of inventory (EUR +0.3 million), increasing receivables (EUR -0.3 million) and increase in payables (EUR +0.3 million)
 - Utilization of provisions taken in FY/2017 and new allowance; mainly legal costs
 - Other Assets/Liabilities: lower non-cash effect from the recognition of unrealized currency effects from IC
- Investing Cash Flow 9M/2018 : EUR -2.1 million (9M/2017: EUR -0.9 million)
 - Limited investments in 9M/2018 in tangible assets of EUR 0.4 million and higher investments of EUR 1.7 million mainly in R&D silver project
 - 9M/2017: Inflow of EUR 0.5 million of investment grants for investments made in 2010-2013
- Financing 9M/2018 : EUR -0.2 million (9M/2017: EUR -3.6 million)
 - Ordinary redemption of bank loans of EUR -0.3 million and finance lease of EUR -0.3 million while in parallel securities granted to banks of EUR +0.4 million
 - 9M/2017: Outflow of EUR 3.4 million for share buy back program
- Cash on hand per B/S: EUR 7.3 million (12/31/2017: EUR 13.3 million)
- Total Cash (incl. restricted cash granted for securities): EUR 10.3 million (12/31/2017: EUR 17.1 million)
- Net cash per B/S: EUR 6.8 million (12/31/2017: EUR 12.7 million)
- Net Cash (incl. restricted cash): EUR 9.5 million (12/31/2017: EUR 15.7 million)

Outlook

FY/2018

- **Sales:** EUR 10.0 million – EUR 11.7 million
(FY/2017: EUR 10.9 million)
- **EBITDA:** EUR -6.9 million – EUR -5.9 million
(FY/2017: EUR -6.2 million)

Many thanks for your attention!



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