



aap Implantate AG

Annual Financial Statements FY/2018 Conference Call

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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 FY/2018

➤ Sales and Earnings

- Sales of EUR 10.8 million (FY/2017: EUR 10.9 million) and EBITDA of EUR -6.4 million (FY/2017: EUR -6.2 million)
- Double-digit growth rates in Germany (+14% yoy) and international key markets (+24% yoy in BRICS and Europe without Germany); North America fell short of expectations (-27% yoy)

➤ Gross margin and costs

- Gross margin¹ at a continued good level of 78%, albeit temporarily influenced by reduced share of high-margin US sales in total sales
- Scheduled slight increase in personnel costs; other expenses unchanged yoy with high one-time costs for extended measures for step-up strategy implementation

➤ Cash flow and balance sheet

- Cash need in FY/2018 of EUR 9.0 million with positive effects of working capital reduction (EUR 0.6 million)
- Cash holdings of EUR 7.3 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 12/31/2018 EUR 4.3 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 FY/2018

➤ **LOQTEQ®**

- Focus on, among other things, European approval of various polyaxial LOQTEQ® systems
- Development of sterile packaging for implants
- Approval applications submitted to FDA (inter alia for foot and periprosthetic system)
- Transformation of processes and records to new regulatory requirements

➤ **Silver coating technology**

- Convincing results of animal study undertaken with renowned AO Research Institute Davos
- Submission of application for approval of a human clinical study to Federal Institute for Drugs and Medical Devices (BfArM)
- EUR 0.7 million funding from Federal Ministry of Education and Research for preparation of human clinical study; promising prerequisite for further funding
- Different global orthopaedic companies remain keenly interested

Update Q1/2019

➤ Q1 Sales (preliminary)

- Good start to the year with significant Q1 sales growth to EUR 3.5 million (+25% yoy)
- All regions contributed with double-digit growth rates: Germany (+14% yoy), International (+28% yoy) and North America (+18% yoy)

➤ Measures to strengthen financial base

- Package of measures adopted at mid-April 2019 which will now be implemented shortly
- Capital increase with subscription rights (inflows of at least EUR 2.3 million (shareholder commitments) up to approx. EUR 5.0 million in case of full subscription) as well as sale-and-rent-back as well as factoring agreements (inflows of approx. EUR 1.7 million)

➔ Total inflows of at least around EUR 4.0 million

- With these inflows, the realisation of the planned sales growth and further planned payment inflows, e.g. from technology-based transactions and public funding, *aap* aims to secure the financing sustainably until at least the end of 2020

Financial Figures FY/2018

(in KEUR)

In KEUR	FY/2018	FY/2017	Change on year
Trauma	10,816	10,648	+2%
Germany	2,774	2,427	+14%
North America	2,240	3,071	-27%
<i>North America distributors</i>	2,172	2,491	-13%
<i>North America global partners</i>	68	580	-88%
International (without North America)	5,802	5,150	+13%
<i>Europe (without Germany)</i>	1,864	1,593	+17%
<i>BRICS states</i>	1,713	1,297	+32%
Total key markets	3,577	2,890	+24%
<i>Rest</i>	2,225	2,260	-2%
Other (mainly discontinued activities)	-35	254	>-100%
Sales	10,781	10,902	-1%

In KEUR	FY/2018	FY/2017	Change on year
EBITDA	-6,406	-6,211	-3%

Highlights FY/2018 (Balance Sheet)

- Total assets 12/31/2018: EUR 42.2 million (12/31/2017: EUR 50.5 million) → -16%
 - Non-current assets: slightly increased, but countervailing effects
 - Capitalized development costs: EUR +1.3 million
 - Share of intangible assets in total assets: 31%
 - Tangible assets: EUR -0.3 million → lower investment against usual depreciation in FY/2018
 - Current assets: Change EUR -9.0 million
 - Inventories: No change
 - Trade receivables: slight increase as per reporting date; stable DSO of 90 days in FY/2018 (FY/2017: 85 days)
 - Other financial assets: EUR -0.2 million → reduction of cash blocked as security for non-current financial liabilities
 - Cash and cash equivalents: EUR -9.0 million to EUR 4.3 million
 - Equity: EUR 34.9 million (12/31/2017: EUR 42.6 million)
 - Net result FY/2018: EUR -7.7 million
 - Equity ratio: 83% (12/31/2017: 84%)
 - Liabilities: Change EUR -0.6 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) → EUR +0.4 million
 - Other financial liabilities: EUR -0.5 million → EUR -0.5 million repayment finance lease, EUR -0.2 million payment for *aap* Joints deal
 - Provisions: EUR -0.5 million → utilization and allowance for legal costs and bonus 2017

Highlights FY/2018 (Cash Flow)

- Operating Cash Flow FY/2018: EUR -5.9 million (FY/2017: EUR -5.4 million)
 - Slightly lower operating result (EBIT)
 - Positive contribution from working capital of EUR 0.6 million → reduction of inventory (EUR +0.3 million), increasing receivables (EUR -0.1 million) and increase in payables (EUR +0.4 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 FY/2018 : EUR -3.0 million (FY/2017: EUR -1.5 million)
 - Limited investments in FY/2018 in tangible assets of EUR 0.8 million and higher investments of EUR 2.2 million mainly in R&D silver project
 - FY/2017: Inflow of EUR 0.5 million of investment grants for investments made in 2010-2013
- Financing FY/2018 : EUR -0.2 million (FY/2017: EUR -3.5 million)
 - Ordinary redemption of bank loans of EUR -0.3 million and finance lease of EUR -0.5 million while in parallel securities granted to banks of EUR +0.6 million
 - FY/2017: Outflow of EUR 3.4 million for share buy back program
- Cash on hand per B/S: EUR 4.3 million (12/31/2017: EUR 13.3 million)
- Total Cash (incl. restricted cash granted for securities): EUR 7.3 million (12/31/2017: EUR 17.1 million)
- Net cash per B/S: EUR 4.0 million (12/31/2017: EUR 12.7 million)
- Net Cash (incl. restricted cash): EUR 6.6 million (12/31/2017: EUR 15.7 million)

Management Agenda 2019

Implementation of strategic imperatives

	Products	Customers	
Services	<h3>Accelerating Value-based Innovation</h3> <ul style="list-style-type: none"> ➤ Silver coating technology – Application on LOQTEQ®: Start of the human clinical study targeted for H1/2019 ➤ Silver coating technology – Development projects with global companies: Initiation of joint product development and approval projects ➤ LOQTEQ®: Further completion of LOQTEQ® portfolio with focus on polyaxial fixation technology, plate systems for foot and ankle as well as implants in sterile packaging 	<h3>Enhancing Market Access</h3> <ul style="list-style-type: none"> ➤ Germany: Increase of market presence ➤ International key markets: Extension of distribution network with focus on North America, Europe and BRICS ➤ Global partnerships: Distribution networks and licensing deals with global orthopedic companies 	Distribution
Cost	<h3>Optimizing Operational Efficiency</h3> <ul style="list-style-type: none"> ➤ Quality First: Consequent continuation of quality improvement program; adaption of processes and documents to new increased regulatory requirements (MDR) within transfer program Fit 4 MDR ➤ Production and sales efficiency: Increase of ability to provide timely deliveries and performance / salesman ➤ Working capital: Optimisation of working capital management with higher inventory turnover inter alia by a strict consignment management 	<h3>Realization of Financial Targets</h3> <ul style="list-style-type: none"> ➤ Sales: Sales of EUR 13.0 million to EUR 15.0 million ➤ EBITDA: EBITDA of EUR -4.4 million to EUR -2.8 million ➤ Financing: Strengthening of financial base for sales growth, human clinical study silver and further development magnesium 	Cash
	Process	Profitability	

Outlook

FY/2019

- **Sales:** EUR 13.0 million – EUR 15.0 million
(FY/2018: EUR 10.8 million)
- **EBITDA:** EUR -4.4 million – EUR -2.8 million
(FY/2018: EUR -6.4 million)

Many thanks for your attention!



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