

# Allium Medical Solutions

FY16 update

## Growth continues, investment case reinforced

Allium Medical Solutions has reported FY16 financial results, which impressed with revenue growth of 42% to NIS7.4m vs NIS5.2m in 2015, in line with our expectations. Gross margin doubled to 30%. This increase comes mainly from Allium Stents and IBI Medical. We are encouraged to see that the company continued to execute on its business plan of organic growth and margin expansion; therefore, the investment case remains intact, in our view. We maintain our revenue CAGR forecast of 41% in 2016-20e and our DCF valuation of NIS1.95-2.08/share.

Year end	Revenue (NISm)	PBT* (NISm)	EPS* (NIS)	DPS (NIS)	P/E (x)	Yield (%)
12/15	5.2	(18.5)	(0.65)	0.0	N/A	N/A
12/16	7.4	(22.0)	(0.49)	0.0	N/A	N/A
12/17e	11.2	(15.7)	(0.30)	0.0	N/A	N/A
12/18e	17.5	(7.1)	(0.13)	0.0	N/A	N/A

Note: \*PBT/EPS are normalised, excl. amortisation of acquired intangibles and exceptionals.

## Revenues grew 42% y-o-y; gross margin expands

Revenues grew 42% year-on-year with c 70% of sales coming from Allium Stents, and the rest mainly from IBI Medical (EndoFast urogynecology). While the main market was still Europe, other regions such as South Korea, Argentina, Australia, Canada and South Africa gained traction in 2016 as well. Allium has distribution agreements worth c NIS185m for its peripheral stents and IBI products which could continue to support a double-digit percentage increase in total revenues. Gross margin doubled from 15% in 2015 to 30% in 2016, due to economies of scale and increasing revenues. G&A expenses remained stable over 2016, increasing by 6% due to non-cash stock-based compensation expenses. S&M costs increased 38%, albeit from a low base of NIS2.1m to NIS2.9m. R&D spend was up 32% to NIS13.5m as a result of an increased investment related to Allevetix (gastroduodenal bypass sleeve), Gardia (embolic protection system) and the initiation of the TruLeaf mitral valve replacement project. Having incorporated FY16 numbers, we have slightly adjusted our cost and earnings forecasts.

## R&D projects on track

During Q416, Allium announced the finalisation of Allevetix design freeze and positive *in vivo* data. A first in man trial is on track to start by YE17; additionally, a [patent](#) has been granted in China, the biggest global market for both obesity and diabetes. Gardia is on track to complete enrolment of a 100-patient trial in the US and present data in 2017, sufficient to expand its indication to the large opportunity of lower extremities. Finally, Allium will conduct a trial of its mitral valve replacement device in big animals this year.

## Valuation: DCF of NIS1.95-2.08/share unchanged

We maintain our DCF valuation of NIS1.95-2.08/share. We estimate that end-2016 cash of NIS23.2m will be sufficient to fund operations over the next 12-24 months, depending on growth rates and cost control. Potential catalysts this year include continued regional expansion, delivery on growth expectations and Gardia data.

### Medical devices

16 March 2017

**Price\*** **NIS1.19**
**Market cap** **NIS63m**

\*Priced at 13 March 2017

US\$/NIS3.85

Net cash (NISm) at end 2016 23.2

Shares in issue 52.9m

Free float 76%

Code ALMD

Primary exchange TASE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (6.4) (2.0) (22.8)

Rel (local) (6.2) (2.6) (23.3)

52-week high/low NIS1.7 NIS1.1

### Business description

Allium Medical Solutions is a company focused on developing and marketing minimally invasive solutions in various areas: cardiovascular, metabolic, genitourinary and gastrointestinal. The company has three selling product lines: Allium Stents, IBI (EndoFast) and Gardia Medical. Allium markets its products mainly through distribution agreements.

### Next events

Potential strategic agreements for Gardia 2017

Start Allevetix first in man clinical trial 2017

Regulatory approval in additional markets for Allium and IBI 2017

Completion of Gardia clinical trial 2017

TruLeaf trial in big animals 2017

### Analysts

Juan Pedro Serrate +44 (0)20 3681 2534

Jonas Peculis +44 (0)20 3077 5728

[healthcare@edisongroup.com](mailto:healthcare@edisongroup.com)
[Edison profile page](#)

**Exhibit 1: Financial summary**

	NIS'000	2014	2015	2016	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
Revenue		4,916	5,178	7,353	11,196	17,470
Cost of Sales		(5,699)	(4,421)	(5,171)	(7,819)	(10,126)
Gross Profit		(783)	757	2,182	3,377	7,343
EBITDA		(20,373)	(16,333)	(20,375)	(14,728)	(6,299)
Operating Profit (before GW and except.)		(20,758)	(16,759)	(20,757)	(15,349)	(6,858)
Intangible Amortisation		(2,032)	(1,705)	(1,579)	(1,436)	(1,293)
Exceptionals		(1,262)	(720)	(297)	0	0
Operating Profit		(24,052)	(19,184)	(22,632)	(16,784)	(8,151)
Net Interest		(593)	(1,748)	(1,284)	(361)	(213)
Exceptionals		0	0	0	0	0
Other		0	0	0	0	0
Profit Before Tax (norm)		(21,351)	(18,507)	(22,041)	(15,709)	(7,070)
Profit Before Tax (IFRS)		(24,645)	(20,932)	(23,917)	(17,145)	(8,363)
Tax		0	0	0	0	0
Profit After Tax (norm)		(21,351)	(18,507)	(22,041)	(15,709)	(7,070)
Profit After Tax (IFRS)		(24,645)	(20,932)	(23,917)	(17,145)	(8,363)
Average Number of Shares Outstanding (m)		18.43	28.53	44.97	52.94	52.94
EPS - normalised (NIS)		(1.16)	(0.65)	(0.49)	(0.30)	(0.13)
EPS - IFRS (NIS)		(1.34)	(0.73)	(0.53)	(0.32)	(0.16)
Dividend per share (NIS)		0.00	0.00	0.00	0.00	0.00
Gross Margin (%)		-16%	15%	30%	30%	42%
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
<b>BALANCE SHEET</b>						
Fixed Assets		28,218	25,612	23,616	21,660	19,908
Intangible Assets		26,438	24,059	22,465	21,029	19,736
Tangible Assets		1,780	1,472	1,025	505	46
Restricted cash		0	81	126	126	126
Current Assets		16,629	31,342	28,605	13,163	6,981
Stocks		2,330	2,277	2,516	2,527	2,834
Debtors		686	889	1,253	1,534	1,914
Cash		12,940	27,053	23,202	7,469	599
Other		673	1,123	1,634	1,634	1,634
Current Liabilities		(5,560)	(5,620)	(12,660)	(12,507)	(13,037)
Creditors		(1,516)	(1,524)	(1,890)	(1,737)	(2,267)
Accruals		(1,820)	(1,895)	(936)	(936)	(936)
Other short term liabilities		(2,224)	(2,201)	(4,124)	(4,124)	(4,124)
Long Term Liabilities		(7,127)	(6,207)	(1,368)	(1,268)	(1,168)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(7,127)	(6,207)	(1,368)	(1,268)	(1,168)
Net Assets		32,160	45,127	38,193	21,048	12,685
<b>CASH FLOW</b>						
Operating Cash Flow		(19,026)	(15,874)	(17,259)	(15,533)	(6,670)
Net Interest		0	0	0	0	0
Tax		0	0	0	0	0
Capex		(349)	(164)	(220)	(100)	(100)
Acquisitions/disposals		0	0	0	0	0
Financing		25,191	31,992	13,956	0	0
Dividends		0	0	0	0	0
Other		(41)	(1,841)	(328)	(100)	(100)
Net Cash Flow		5,775	14,113	(3,851)	(15,733)	(6,870)
Opening net debt/(cash)		(7,165)	(12,940)	(27,053)	(23,202)	(7,469)
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	0	0
Closing net debt/(cash)		(12,940)	(27,053)	(23,202)	(7,469)	(599)

Source: Edison Investment Research, Allium Medical Solutions accounts.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting, is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### EDISON ISRAEL DISCLAIMER

Disclosure regarding the scheme to enhance the awareness of investors to public companies in the technology and biomed sectors that are listed on the Tel Aviv Stock Exchange and participate in the scheme (hereinafter respectively "the Scheme", "TASE", "Participant" and/or "Participants"). Edison Investment Research (Israel) Ltd, the Israeli subsidiary of Edison Investment Research Ltd (hereinafter respectively "Edison Israel" and "Edison"), has entered into an agreement with the TASE for the purpose of providing research analysis (hereinafter "the Agreement"), regarding the Participants and according to the Scheme (hereinafter "the Analysis" or "Analyses"). The Analysis will be distributed and published on the TASE website (Maya), Israel Security Authority (hereinafter "the ISA") website (Magna), and through various other distribution channels. The Analysis for each participant will be published at least four times a year, after publication of quarterly or annual financial reports, and shall be updated as necessary after publication of an immediate report with respect to the occurrence of a material event regarding a Participant. As set forth in the Agreement, Edison Israel is entitled to fees for providing its investment research services. The fees shall be paid by the Participants directly to the TASE, and TASE shall pay the fees directly to Edison. Subject to the terms and principals of the Agreement, the Annual fees that Edison Israel shall be entitled to for each Participant shall be in the range of \$35,000-50,000. As set forth in the Agreement and subject to its terms, the Analyses shall include a description of the Participant and its business activities, which shall inter alia relate to matters such as: shareholders; management; products; relevant intellectual property; the business environment in which the Participant operates; the Participant's standing in such an environment including current and forecasted trends; a description of past and current financial positions of the Participant; and a forecast regarding future developments in and of such a position and any other matter which in the professional view of the Edison (as defined below) should be addressed in a research report (of the nature published) and which may affect the decision of a reasonable investor contemplating an investment in the Participant's securities. To the extent it is relevant, the Analysis shall include a schedule of scientific analysis of an expert in the field of life sciences. An "equity research abstract" shall accompany each Equity Research Report, describing the main points addressed. The full scope reports and reports where the investment case has materially changed will include a thorough analysis and discussion. Short update notes, where the investment case has not materially changed, will include a summary valuation discussion. The Agreement with TASE regarding the participation of Edison in the scheme for the research analysis of public companies does not and shall not constitute an approval or consent on the part of TASE or the ISA or any other exchange on which securities of the Company are listed, or any other securities' regulatory authority which regulates the issuance of securities by the Company to the content of the Report or to the recommendation contained therein. A summary of this report is also published in the Hebrew language. In the event of any contradiction, inconsistency, discrepancy, ambiguity or variance between the English Report and the Hebrew summary of said Report, the English version shall prevail; and a note to this effect shall appear in any Hebrew summary of a Report. Edison is regulated by the Financial Conduct Authority. According to Article 12.3.2, Chapter 12 of the Conduct of Business Sourcebook, Edison, which produces or disseminates non-independent research, must ensure that it: 1) is clearly identified as a marketing communication; and 2) contains a clear and prominent statement that (or, in the case of an oral recommendation, to the effect that) it: a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and b) is not subject to any prohibition on dealing ahead of the dissemination of investment research. The financial promotion rules apply to non-independent research as though it were a marketing communication.

#### EDISON INVESTMENT RESEARCH DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.