

aap Implantate

Solid start to 2017

aap Implantate has announced a solid start to 2017 with Q1 trauma sales increasing by 30% to €2.9m and total sales up 23% to €3.1m, slightly ahead of company guidance of €1.8m to €2.8m. This is significant as 2017 is the first year following the company's transformation into a pure trauma player and suggests that traction is starting to develop following initiatives to drive sales in the established markets. Increasing market penetration in Europe and the US remains key to a sustained return to growth.

Strategic progression starting to prove fruitful

In FY16 aap Implantate transitioned to being a pure trauma player following the divestment of its biomaterials business and remaining stake in aap Joints. The performance was affected by slow BRICS and SMIT markets and in particular missing sales in China. The company took strategic steps to focus more on established markets such as North America and Europe, which started to demonstrate traction toward the end of FY16. This trend is continuing in Q117 with a 16% increase in sales in North America and Europe to €2.1m from €1.8m in Q116. In addition, sales in BRICS and SMIT states are, according to the company, showing signs of stabilising. Q117 cash position was €27.4m, which on cash burn of €1.1m in Q117 indicates it has sufficient funds to continue to execute its strategy.

2017 could prove an important year

2017 is the first year that strategically aap Implantate is fully focused on trauma. It has three technologies in its trauma portfolio: its anatomical plating system LOQTEQ for fracture repair (being marketed); its antibacterial silver coating technology (in regulatory process); and absorbable magnesium (in development). Areas of focus which, if delivered, could render 2017 an important year include continued revenue growth in the established markets (North America and Europe), execution of a technology deal for its LOQTEQ and/or its silver coating technology with a larger player and decisive steps for CE marking and FDA approval for its silver coating technology. As sales growth gains traction, investor focus will be on the progression of its silver coating technology.

Valuation: Return to growth could offer upside

Against the backdrop of a successful Q1 indicating a possible return to growth, the potential offered by an increase in LOQTEQ's indication coverage and a promising product pipeline, aap could have upside potential. The orthopaedics market is dominated by a small number of large companies, which are often acquisitive in order to bring in innovative products and/or improving existing products to create a leading, differentiated proposition. If aap delivers on its strategy and returns to sustained growth, the company could attract M&A interest.

Reported financials

Year end	Revenue (€m)	PBT (€m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/15	28.0	(5.3)	(0.2)	0.0	N/A	N/A
12/16	14.7	14.6	0.5	0.0	N/A	N/A

Source: aap Implantate accounts

Healthcare equipment & services

18 May 2017

Price €1.35
Market cap €42m

Share price graph



Share details

Code	AAQ
Listing	XETRA
Shares in issue	30.8m

Business description

aap Implantate is a German medtech company, focused on developing, manufacturing and selling products for bone fractures. This is primarily the LOQTEQ trauma plating system alongside earlier-stage innovations including antibacterial silver coating technology and absorbable magnesium.

Bull

- Proven technology and strong IP protection.
- Transition to a pure trauma player enables a focus on building the core.
- Focused on driving sales in more established markets – increased distributors in the US and an experienced head of US sales engaged.

Bear

- FY16 continuing business (trauma) sales were down by 15% on FY15.
- The orthopaedic space is dominated by a few large players, making it difficult for a small player to gain traction.
- Impact of increased sales focus on established markets not yet fully demonstrated.

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