

Analyst Report

Coverage initiated on July 12th 2016

Aurgalys is contracted by Implanet to provide equity research

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Implanet

Euronext Paris: IMPL [FR0010458729]

September 26th 2016

Estimated price: € 3.80

Share price (€) (As of 26/09/2016)	1.49
High/Low (€) since Jan. 1 st , 2016	2.25/1.12
Market Cap (€M) (as of Sept. 26 th 2016)	17.1
Estimated Net Cash (€M)	1.0
Estimated Market Cap. (€M)	43.6
Number of shares (M)	11.4
Estimated price (€)	3.80
Volume 3-month average	170,000
Free float	79%

Strong revenue growth in the first half of 2016 driven by US sales

Implanet generated €4M of revenue in H1-2016, a 24% increase compared to H1-2015. The company doubled its sales in the US, demonstrating strong adoption of the Jazz band implant in this key market (+101%), and confirming the interest for Implanet's lead product. The company has the ambition to make its JAZZ implant a reference implantable device for spinal fusion procedures. It is also a direct result of the company's efforts to support its marketing activity in major markets, including the US and the European region. Thanks to a better control of its expenses Implanet also recorded a significant reduction of its operational loss from € 4.3M in H1-2015 to € 3.6M in H1-2016. We believe these figures to be good indicators for Implanet's promising perspectives, and maintain our valuation of Implanet at €43.6M. We adjusted our target price to € 3.80/share, to take into account the newly issued shares following the conversion of convertible bonds.

Implanet on a good momentum

The Jazz band is an innovative implant developed by Implanet, used in support or replacement of pedicular screws and hooks during spinal fusion surgeries. Implanet already performed several studies demonstrating the benefits of Jazz to correct the main deformities of the spine, including scoliosis, degenerative diseases of the spine, and trauma.

Implanet's goal is to establish the Jazz band as a reference implant for spinal surgery. The company has dedicated important resources to support Jazz's adoption among surgeons, including the Jazz Academy (training of surgeons and sales partners), publications of scientific papers, and strengthening of its network of business partners. These increased marketing efforts seem to provide their first benefits, as evidenced by strong sales in H1-2016 generated in the US (+ 101%), the largest market targeted by the company. In France, sales increased by 40% compared to H1-2015. Since its launch in 2013, the Jazz band has shown a growing adoption among surgeons, and more than 15,000 implants have been used in spinal

Euronext since Jan. 1st, 2016

Implanet	-34.9%
<i>Alys France*</i>	<i>-16.7%</i>
<i>CAC Healthcare.</i>	<i>-7.7%</i>
<i>CAC 40</i>	<i>-4.9%</i>
<i>CAC Small</i>	<i>+0.8%</i>

Index of French smallcaps (less than €1B market capitalization at time of inclusion) in the healthcare and life sciences sector, listed on Euronext Paris.

See <http://www.aurgalys.com/aurgalys-indices>

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surgery worldwide. So far, more than 2,800 patients have benefited from the Jazz technology. This encouraging figures and development demonstrate the interest of surgeons for this new technology.

Earlier this month, Implanet announced that its new implant JAZZ Lock was successfully used in 25 patients in France, Italy, and the US. The company intends to accelerate the promotion of this new device in its entire commercial network. Recently, the company also announced it was granted an additional key patent strengthening the intellectual protection on its Jazz platform in the US.

According to our estimations, the Jazz band could generate peak sales of €100M, including €80M in the US alone. We therefore believe that there is still room for improvement, and that the Jazz band could increase its market share in the coming months.

Significant reduction of operating loss

Implanet also reported a significant reduction of its operating loss to € 3.5M, compared to € 4.3M in H1-2015. This is largely due to the improvement of the gross margin, which was positively impacted by strong sales in the US, where the company markets its devices at a high price. According to the company, the average price of a Jazz implant is € 1,400 in the US, compared to € 300 in other territories. The company also significantly reduced its operational expenditures, which now account for 140% of revenues (€ 3.6M), compared to 163% last year. Implanet's net loss for the first semester of 2016 was € 3.8M, compared to €4.2M in June 30th, 2015.

Valuation

Following the publication of Implanet's H1-2016 results, we maintain our valuation of the company at €43.6M. We slightly revised our target price to €3.80/share (compared to €3.93 from our coverage initiation report, in July 2016) to account for the newly issued shares following the conversion of bonds.

Stock performance

Implanet went public on Euronext on November 25th, 2013 at a price of €7.20 per share. Since then, Implanet's stocks have lost 82% as of July 12th, 2016. The company's share price was negatively impacted by its financial performance (end of its activity in the hip surgery field) and by macroeconomic events, and especially when the company announced a follow-on offering in March 2015. Over the last year, Implanet's performance was correlated with that of other French Medtech smallcaps (Figure 25), but plummeted more in early 2016. However, in recent months, Implanet's share reacted positively to strong H1-2016 sales, and to the marketing approval of both JAZZ Lock and JAZZ Claw (+7%, +25%, and +19%, respectively) in high trading volumes. This trend was subsequently confirmed with the recent patent granted to the company, protecting

its technology in the US, a key market for Implanet, and with the successful surgeries with JAZZ Lock in 25 patients, announced earlier this month. Since January 1st, 2016, Implanet's share price has lost 34.9%.

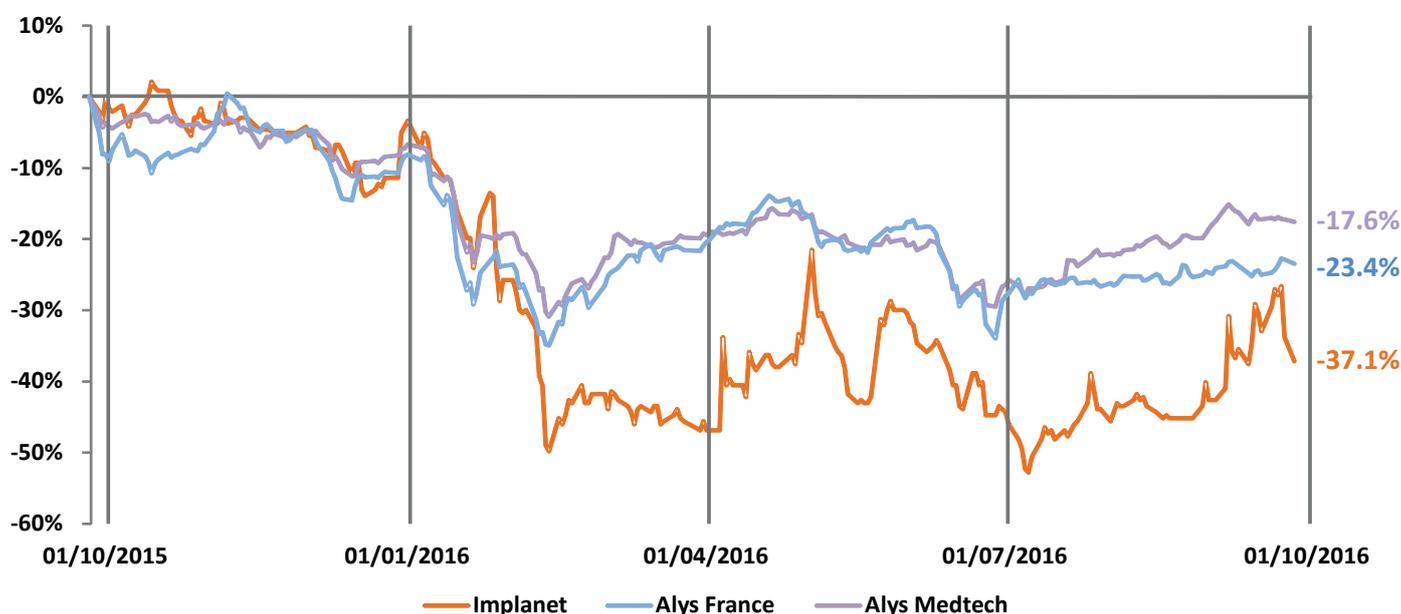


Figure 1. One-year chart dated September 26th, 2016, comparing the performance of Implanet's stock with French smallcaps of the life sciences and healthcare sector (Alys France index) and French Medtech smallcaps (Alys Medtech index).

Financial Information

EARNINGS PER SHARE (€)		2013	2014	2015	2016e	2017e
EPS		-2,1	-1,1	-0,7	-0,6	-0,4
INCOME STATEMENT (€M)		2013	2014	2015	2016e	2017e
Revenue		6,7	7,0	6,7	8,4	10,9
EBIT		-6,5	-5,9	-6,9	-6,3	-5,4
Net Income		-6,8	-6,1	-7,3	-6,5	-5,6
CASH FLOW STATEMENT (€M)		2013	2014	2015	2016e	2017e
Cash Flow from operating activities		-5,4	-5,3	-6,8	-4,6	-5,3
Cash Flow from investment activities		-10,9	7,5	-3,2	3,9	0,5
Cash Flow from financing activities		19,5	-3,0	9,1	0,1	10,8
Net change in cash		3,1	-0,9	-1,0	-0,6	6,0
BALANCE SHEET (€M)		2013	2014	2015	2016e	2017e
Non Current Assets		11,4	5,8	3,0	2,6	2,5
Current assets		12,6	8,8	13,2	7,4	13,7
<i>Including cash & cash equivalent</i>		5,0	2,4	6,5	1,5	6,6
Total Assets		23,9	14,6	16,3	10,0	16,2
LIABILITIES AND SHAREHOLDER'S EQUITY		2013	2014	2015	2016e	2017e
Total Equity		13,9	7,2	9,7	5,1	11,9
Total Debt		4,3	7,3	6,6	5,0	4,3
Total Liabilities and Shareholder's Equity		18,1	14,6	16,3	10,0	16,2

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