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**Implanet****Implanet améliore sa marge brute et son résultat opérationnel de 22 %**

Implanet améliore sa marge brute à 2,02 M€ ainsi que son résultat opérationnel, et ce malgré un repli de 12 % du CA. Bonne dynamique de JAZZ

Implanet improves its gross margin and its operating profit by 22%

Implanet improved its gross margin to € 2.02m as well as its operating profit, despite a 12% decline in sales. JAZZ is still in a good sales dynamic.

Opinion**Closing Price 21/09/2018****Target Price****1. Strong Buy****0,24 €****0,91 € (+285,6 %)****Implanet améliore sa marge brute (+ 4 points) et son résultat opérationnel de 22 %**

Implanet a présenté ses résultats pour le 1^{er} semestre 2018. Implanet améliore sa marge brute à 2,02 M€ ainsi que son résultat opérationnel, et ce malgré un repli de 12 % du chiffre d'affaires. JAZZ est toujours dans une bonne dynamique commerciale puisque les ventes de JAZZ progressent en France (+10 %) et aux USA (+14 %), marchés de commercialisation directs. Notre modèle nous conduit à maintenir notre objectif de cours à 0,91 €, ce qui représente toujours un potentiel de hausse plus que significatif.

JAZZ continue de progresser

Si le chiffre d'affaires global affiche un recul de -12 % à 3,6 M€ et de 9 % à taux de change constant, contre 4,1 M€ en 2017, cela est principalement due à une baisse des ventes notamment de l'activité Arthroscopie qui contribuait pour près de 7 % du CA et un recul des ventes indirectes dans le reste du monde.

Implanet improves its gross margin and its operating profit by 22%

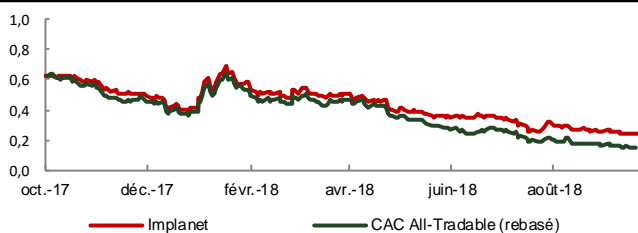
Implanet presented its half-year results for 2018. In a difficult context, Implanet improved its gross margin to € 2.02m as well as its operating profit, despite a 12% decline in sales. JAZZ is still in a good sales dynamic, as shown in its main markets; France with +10% and the USA with +14%. Our model leads us to maintain our price target at € 0.91, which still represents a significant upside potential.

JAZZ continues to progress

While overall sales are down 12% at € 3.6 million and 9% at constant exchange rates, compared with € 4.12 million in 2017, this is mainly due to a decrease in sales particularly of the Arthroscopy activity sales, which contributed nearly 7 % of revenues and a decrease of ROW indirect sales.

Performances

Absolute perf. 1 month 6 months 12 months
-13,9 % -52 % -63,7 %

**Market data**

Reuters / Bloomberg ticker	ALIMP.PA / ALIMP:FP
Market capitalisation (€m)	7,2 M€
Enterprise value (€m)	7,4 M€
Free Float	5,5 M€ (77 %)
Number of shares	30 140 443
Daily volume	105 191 €
Capital turnover rate (1 year)	382,8%
High (52 weeks)	0,69 €
Low (52 weeks)	0,24 €

Current shareholding structure

Free float : 77 % ; French investors 18 % ; Management : 4 % ;
Autocontrol: 1 %

Agenda

Q3 sales published on 12th october 2018

Key figures

	2016	2017	2018E	2019E	2020E
Sales (M€)	7,8	7,8	8,0	11,6	15,3
Change (%)	17,6%	0,2%	2,4%	44,7%	31,9%
EBITDA (M€)	-6,5	-5,5	-4,3	-3,8	-2,3
EBIT (M€)	-6,9	-6,2	-4,6	-4,2	-2,8
EBIT margin (%)	-87,9%	-79,5%	-57,7%	-36,1%	-18,2%
Net profit gp sh. (€)	-7,3	-6,6	-5,0	-4,5	-3,1
Net margin (%)	-93,2%	-84,3%	-62,1%	-38,7%	-20,2%
EPS	-0,39	-0,28	-0,15	-0,14	-0,09

Ratios

	2016	2017	2018E	2019E	2020E
VE / CA	1,5	1,8	1,3	1,2	0,9
VE / EBIT	NS	NS	NS	NS	NS
VE / REX	NS	NS	NS	NS	NS
P / E	NS	NS	NS	NS	NS
Gearing (%)	-24,5%	-5,7%	49,7%	102,8%	115,9%
Net debt / EBITDA	0,4	0,1	-0,7	-1,7	-3,2
RCE (%)	-118,3%	-119,5%	-87,8%	-66,1%	-42,8%

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Toutefois, les ventes de JAZZ progressent de 10 % à 0,9 M€ en France et de 14 % aux USA à 1,1 M€. Aujourd'hui la part des ventes de JAZZ s'accroît dans le chiffre d'affaires global, puisque la franchise représente 61 % du CA total contre 58 % au S1 2017. En France, le nombre de chirurgiens utilisant la technologie JAZZ s'est accru passant de 72 à 74 de même qu'aux USA où durant le semestre, le nombre de chirurgiens acquis à JAZZ est passé de 76 à 81.

Amélioration de la marge brute et du résultat opérationnel

L'un des objectifs d'Implanet est d'améliorer sa rentabilité opérationnelle. Ainsi, le ROPI s'est-il amélioré au S1 2018 de 22 % à -2,75 M€ contre -3,54 M€ au S1 2017. Les charges externes (coûts d'exploitation) ont baissé de 8 % qui sont passées de -5,19 M€ au S1 2017 à -4,77 M€ au S1 2018. Par ailleurs, le taux de marge brute, s'est amélioré de 4 points passant de 51,1 % au S1 2017 à 55,7 % au S1 2018. Cette évolution s'explique notamment par le changement de mix produits, mais aussi du mix pays des prix de vente des instruments JAZZ aux Etats-Unis historiquement plus élevés qu'en Europe et a fortiori en France. En effet en abandonnant l'activité Arthroscopie, Implanet peut se recentrer sur des produits à plus haute marge comme la plateforme JAZZ et les implants propriétaires. Implanet cherche aussi à améliorer constamment le prix de revient des produits fabriqués. Implanet pourrait trouver là des leviers pour faire progresser encore son taux de marge dans les exercices futurs.

Repenser la commercialisation : approches directes

La croissance des ventes observée sur le marché français (+10 %) et le marché US (+14 %), qui sont tous deux adressés en direct par Implanet, montrent que le choix de la société de repenser son modèle de commercialisation était pertinent. Ce fut donc la mise en place des infrastructures (country managers, force de vente spécialisée), notamment aux Etats-Unis, qui peuvent échanger avec les chirurgiens, lesquels demeurent les ultimes décideurs dans le choix des techniques et des appareillages pour les opérations du rachis.

Méthodes de Valorisation

DCF

Notre DCF est construit en deux étapes. L'étape 1 résulte de nos calculs détaillés des résultats d'Implanet jusqu'en 2037E (20 ans). Le FCF opérationnel progresse rapidement sur cette période principalement grâce à la croissance de l'EBITDA. L'étape 2 fixe la croissance du FCF à +2,5 % annuellement à l'infini.

Après actualisation du free cashflow à un WACC de 13,28 %, nous obtenons un DCF de 0,91 € par action.

Comparables

Il existe plusieurs sociétés actives dans le domaine de la chirurgie du rachis et elles présentent des tailles différentes, avec parfois des capitalisations boursières beaucoup plus importantes et des niveaux de rentabilité différents de ceux d'Implanet. Toutefois, nous considérons que l'approche par comparables n'est pas pertinente car la plupart des sociétés du panel ne sont pas encore rentables et le seul ratio d'intérêt serait le ratio multiple des ventes, qui ne rend pas compte des phases de développement précoce des sociétés, ni des charges d'exploitation grevant parfois lourdement la rentabilité de ces sociétés.

La méthode DCF se traduit par une valorisation de 0,91 € par action.

However, JAZZ sales grew by 10% to € 0.9m in France and 14% in the US to € 1.1m. Today, Jazz's share of sales is increasing in overall sales, as the JAZZ franchise accounts for 61% of total sales compared to 58% in H1 2017. In France, the number of surgeons using JAZZ technology has increased from 72 to 74, and in the USA, during the same period, the number of surgeons applying Jazz increased from 76 to 81.

Improved gross margin and operating profit

One of Implanet's objectives is to improve its operational profitability. Thus, the operating result improved in H1 2018 by 22% to -2.75 M € against -3.54 M € in H1 2017. External expenses (operating costs) decreased by 8% from € -5.19 million in H1 2017 to € -4.77 million in H1 2018. In addition, the gross margin rate improved by 4 points from 51.1% in H1 2017 to 55, 7% in H1 2018. This change is explained in particular by the change in Implanet product mix, but also in country mix since the US selling prices of JAZZ instruments are historically higher than in Europe and a fortiori in France. By abandoning the Arthroscopy activity, Implanet can refocus on higher margin products such as the JAZZ platform and proprietary implants. Implanet also seeks to constantly improve the cost price of manufactured products. Implanet could find here leverage to further increase its margin rate in the years to come.

Rethinking commercialization: direct marketing

The sales growth observed on the French market (+ 10%) and the US market (+ 14%), both of which are addressed directly by Implanet, show that the company's choice to rethink its traditional marketing model was relevant. The establishment of marketing infrastructures (country managers, specialized sales force) has taken place, particularly in the United States, allowing direct interactions with surgeons, who remain the ultimate decision makers in the choice of techniques and equipment for spine operations.

Valuation method

DCF

Our DCF is built into two stages. Stage 1 results from our detailed Implanet earnings calculation until 2037E (20 years). The operating FCF increases rapidly over there, mainly due to the EBITDA growth. Stage 2 sets the FCF growth to +2.5% annually to infinity.

After discounting the free cashflow at a WACC of 13.28 %, we get to a DCF valuation of €0,91 per share.

Comparables

There are a panel of companies active in the field of spine surgery and they have different sizes, sometimes with much larger market capitalizations and different levels of profitability than those of Implanet. However, we consider that the peer approach is not relevant, most of the panel companies are not yet profitable and the only interest ratio would be the multiple sales ratio, which does not account for the development phase, or operating expenses that sometimes weigh heavily on the profitability of these companies.

The DCF method gives results in a valuation of €0.91 per share.

Cette proximité permet aussi d'expliquer la récurrence de poses constatée, ainsi le nombre moyen de chirurgies utilisant JAZZ aux USA par hôpital et par an s'est accru de plus de 20 % entre 2017 et S1 2018. L'Allemagne et la Grande-Bretagne sont les deux autres marchés cibles européens qu'Implanet souhaite adresser en direct. Selon certaines estimations (Market Research, Global Data), ces deux pays représenteraient respectivement 6 et 2 % du marché des fusions rachidiennes estimé à 4,77 milliards de dollars en 2013.

En Europe, l'Allemagne détient la plus grande part de marché. Le marché allemand des implants spinaux est suivi par la France, le Royaume-Uni, l'Italie et l'Espagne. L'Allemagne devrait connaître un taux de croissance élevé sur le marché des implants rachidiens au cours des prochaines années en raison de l'augmentation du nombre de patients, des dépenses de santé et de la disponibilité de divers appareils orthopédiques pour les traitements cervicaux et lombaires. Un country manager a été recruté pour la Grande-Bretagne en juin 2018 et a déjà initié plusieurs contacts qui devraient conduire dans les mois prochains à des opérations utilisant des produits JAZZ. Un country manager a été recruté pour l'Allemagne en juillet 2018 et a déjà conduit le référencement des prothèses JAZZ au sein de groupements d'achats à Berlin et à Dresde.

La stratégie d'Implanet vise à mettre l'accent sur :

- une accélération de la commercialisation en France et aux Etats-Unis,
- le démarrage de l'approche directe en Allemagne et en Grande-Bretagne,
- le déploiement en Asie avec son partenaire LNK Biomed.

Jalons à venir

Etudes cliniques

S2 2018 : Résultats « top line » de l'essai clinique Fusion vertébrale chez la personne âgée avec l'implant JAZZ® Bénéfices cliniques et économiques – (Suivi de patient – Multicentric-TFS international)

Extension de la plateforme JAZZ®

S2 2018: JAZZ NEURO®

S2 2018: JAZZ Anterior®

Déploiement du réseau commercial

S2 2018: Japon, Chine

This proximity also helps to explain the recurrence of JAZZ prescriptions, so the average number of surgeries using JAZZ in the US per hospital per year increased by more than 20% between 2017 and S1 2018. Germany and the United Kingdom are the two other European target markets that Implanet wishes to address directly. According to some estimates (Market Research, Global Data), these two countries represent respectively 6 and 2% of the market of spinal fusion estimated at 4.77 billion dollars in 2013.

In Europe, Germany holds the largest market share. The German spinal implant market is followed by France, the United Kingdom, Italy and Spain. Germany is expected to experience a high growth rate in the spinal implant market over the coming years due to increased patient numbers, health care costs and the availability of various orthopedic appliances for cervical and lumbar treatments. A country manager was recruited for the UK in June 2018 and has already initiated several contacts that should lead in the coming months to operations using JAZZ products. A country manager was also recruited for Germany in July 2018 and has already led the referencing of JAZZ prostheses in purchasing groups in Berlin and Dresden.

Implanet's strategy is to focus on:

- accelerated marketing in France and the United States,
- launch of direct marketing approach in Germany and the UK
- deployment in Asia with its partner LNK Biomed

Newsflow

Clinical trials

H2 2018: Top-line Results of the Clinical Trial Vertebral Fusion in the Elderly with the JAZZ® Implant Clinical and Economic Benefits - (Patient Monitoring - Multicentric-TFS International)

Extension of the JAZZ® platform

H2 2018: NEURO JAZZ®

H2 2018: Anterior JAZZ®

Deployment of the commercial network

H2 2018: Japan, China

Valuation

DCF

Discount rate calculation

The discount rate results from the weighted average rate between the capital cost and the cost of financial debt. The cost of capital is calculated based on the CAPM model to which is added a Small Cap risk premium according to the following formula:

$$\text{Cost of capital} = R_f + \beta * (R_m - R_f) + \text{Small Caps risk premium}$$

R_f: risk free rate

(R_m-R_f): stock market risk premium

Depending on the company size, we add a Small Caps premium to the cost of capital. The Small Caps premium is calculated according to six criteria which are objectively evaluated. For each criterium, there are five increments from – de ++. Each move upwards adds 20 basis points to the cost of capital.

Please find below the criteria table:

Criterium	Notation scale				
	++	+	=	-	--
Company governance ¹	4	3	2	1	0
Liquidity ²	[66 % ; 100 %]	[33 % ; 66 %]	[15 % ; 33 %]	[5 % ; 15 %]	[0 % ; 5 %]
Revenues size (€m)	[150 ; +∞[	[100 ; 150[	[50 ; 100[	[25 ; 50[	[0 ; 25[
Operating profitability	[25 % ; 100 %]	[15 % ; 25 %]	[8 % ; 15 %]	[3 % ; 8 %]	[0 % ; 3 %]
Gearing	] -∞ % ; -15 %]	] -15 % ; 15 %]	] 15 % ; 50 %]	] 50 % ; 80 %]	] 80 % ; +∞ %]
Clients risks ³	[0 % ; 10 %]	] 10 % ; 20 %]	] 20 % ; 30 %]	] 30 % ; 40 %]	] 40 % ; 100 %]

In the case of Implanet, we obtain the following matrix:

	++	+	=	-	--	Prime Small Caps
Company governance						0,80%
Liquidity						0,20%
Revenues size						1,00%
Operating profitability						1,00%
Gearing						0,20%
Client risk						0,40%
TOTAL						3,60%

Based on the prevalent risk free of 0.70%, a market risk premium of 6.83% (source: Fairness Finance, Market Risk Premia), a beta of 0.94, a Small Caps risk premium of 3.6% and financial leverage of -23.8% a, we get to a discount rate of 13.28%.

Risk Free Rate	Risk premium	Beta	Small Caps risk premium	Cost of capital	Cost of debt	Financial leverage	Tax rate	WACC
0.70%	6.83%	0.94	3.6%	10.7%	3.5%	-23.8%	28.0%	13.28%

Source: Agence France Trésor, Fairness Finance, Market Risk Premia, Damodaran, Genesta estimates

¹ Company's governance is evaluated through the 4 following criterions: separation of functions between president and top management or functioning as a supervisory board and a board of directors; presence of independent members in the board of trustees or in the supervisory board; presence of censors or control board; existence of specialized committees.

² Percentage of capital exchanged in the last 12 months

³ Sales parts represented since by the 5 most important clients.

Enterprise value calculation

Using our 13.28% discount rate, we obtain the following discounted cashflow statement for the period 2018E – 2027E (in €m).

	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Revenues	7,841	8,032	11,619	15,324	31,978	50,684	71,465	91,975	114,969	136,239	149,045
EBITDA	-5,477	-4,337	-3,788	-2,299	-0,032	2,788	4,645	6,898	9,772	12,534	13,861
Tax	0,000	0,000	0,000	0,000	0,000	0,377	0,778	1,264	1,891	2,470	2,706
Capital expenditure	0,744	0,562	0,697	0,766	0,640	0,767	0,921	1,105	1,304	1,434	1,521
Impact of WCR variation	-0,394	-0,203	1,068	0,167	3,412	4,023	4,273	3,798	4,484	3,892	-1,782
Operating FCFs	-5,827	-4,696	-5,553	-3,232	-4,084	-2,380	-1,326	0,731	2,094	4,737	11,417
Discounted operating FCF		-4,412	-4,606	-2,367	-2,640	-1,358	-0,668	0,325	0,822	1,642	3,493

For the period following the forecasts, we apply a terminal growth rate in two times, and obtain the following table (in €m):

	FCF growth	Value	%
1-20 years period	3,0%*	11,06	45,2%
Terminal growth rate	2,5%	13,40	54,8%
Total		24,46	100,0%

*for years 11 to 20

Source: Implanet, Genesta estimates

Thus, Implanet enterprise value stands at € 24.46 million.

Price per share calculation

The table below details the final calculation of equity value per share.

Discounted FCF 2018-2037	11,1
Discounted terminal value	13,5
Financial assets	0,0
Assets consolidated on an equity basis	0,0
Provisions	0,6
Net financial debt	-1,7
Minorities	0,0
Discounted tax loss carry forward	2,1
Equity Value (in EUR million)	27,8
Number of shares (in million)	30,7
Share valuation (in EUR)	0,91

Source: Implanet, Genesta estimates

As a consequence, the use of the Discounted Free Cash Flow method values Implanet's at €0.91 per share, representing an upside of +285.6% compared to the last closing price of €0,24 on September 21st, 2018.

The following table summarizes the DCF valuation sensitivity to changes in the discount rate and terminal growth rate (in €):

		Growth rate to infinity				
		1,5%	2,0%	2,5%	3,0%	3,5%
CAPM	12,28%	1,08	1,11	1,14	1,18	1,21
	12,78%	0,97	0,99	1,02	1,05	1,08
	13,28%	0,86	0,88	0,91	0,93	0,96
	13,78%	0,77	0,79	0,81	0,83	0,85
	14,28%	0,69	0,70	0,72	0,73	0,75

Summary of financial statements

Simplified Income Statement

31/12 (M€)	2015	2016	2017	2018e	2019e	2020e
Revenues	6,7	7,8	7,8	8,0	11,6	15,3
%change	-5,5%	17,6%	0,2%	2,4%	44,7%	31,9%
Ebitda	-7,2	-6,5	-5,5	-4,3	-3,8	-2,3
%change	na	na	na	na	na	na
%of revenues	-108,5%	-83,4%	-69,9%	-54,0%	-32,6%	-15,0%
Ebit	-7,6	-6,9	-6,2	-4,6	-4,2	-2,8
%change	na	na	na	na	na	na
%of revenues	-114,7%	-87,9%	-79,5%	-57,7%	-36,1%	-18,2%
Financial income and charges	-0,4	-0,4	-0,4	-0,4	-0,3	-0,3
Earnings before tax	-8,0	-7,3	-6,6	-5,0	-4,5	-3,1
Income tax	0,0	0,0	0,0	0,0	0,0	0,0
tTx rate %)	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Net earnings	-8,0	-7,3	-6,6	-5,0	-4,5	-3,1
%change	na	na	na	na	na	na
%of revenues	-120,3%	-93,2%	-84,3%	-62,1%	-38,7%	-20,2%

Balance Sheet – Main items

31/12 (M€)	2015	2016	2017	2018e	2019e	2020e
Intangible assets	0,6	0,5	0,7	0,7	0,7	0,7
Tangible assets	1,4	1,2	0,8	1,1	1,1	1,1
Working Capital Requirements	4,1	4,1	3,7	3,5	4,6	4,7
%of revenues	61,2%	52,3%	47,1%	43,5%	39,3%	30,9%
Gross financial debts	3,6	3,7	2,3	2,6	3,0	3,2
Cash and short term investments	1,2	6,1	2,6	-0,5	-3,5	-4,1
Net financial position (net financial debt if a minus)	2,4	-2,4	-0,4	3,1	6,5	7,3

Cash Flows Statement – Main items

31/12 (M€)	2015	2016	2017	2018e	2019e	2020e
Cashflow	-6,0	-5,7	-4,8	-4,2	-3,6	-2,1
Capital expenditures	0,6	0,6	0,7	0,6	0,7	0,8
%of revenues	8,6%	7,5%	9,5%	7,0%	6,0%	5,0%
Impact of working capital requirements variation	0,8	0,2	-0,3	-0,2	1,1	0,2
Free cashflow	-7,4	-6,5	-5,2	-4,5	-5,4	-3,0

Ratios

31/12 (M€)	2015	2016	2017	2018e	2019e	2020e
EPS (€)	-0,83	-0,39	-0,28	-0,15	-0,14	-0,09
Market capitalisation (€m)	37,1	14,1	14,1	7,2	7,2	7,2
Enterprise value	39,5	11,8	13,8	10,3	13,7	14,5
P/E	ns	ns	ns	ns	ns	ns
EV/Sales	5,9	1,5	1,8	1,3	1,2	0,9
EV/Ebitda	ns	ns	ns	ns	ns	ns
EV/Ebit	ns	ns	ns	ns	ns	ns
Ebitda/Sales	ns	ns	ns	ns	ns	ns
Ebit/Sales	ns	ns	ns	ns	ns	ns
Net earnings/Sales	ns	ns	ns	ns	ns	ns
Gearing	25,1%	-24,5%	-5,7%	49,7%	102,8%	115,9%

Important disclosures

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1. Strong buy	The absolute share price performance is expected to be at least +25 %
2. Buy	The absolute share price performance is expected to be comprised between +10 % and +25 %
3. Neutral	The absolute share price performance is expected to be comprised between +10 % et -10 %
4. Sell	The absolute share price underperformance is expected to be comprised between -10 % et -25 %
5. Strong Sell	The absolute share price underperformance is expected to be at least -25 %

Details of valuation methods used by Genesta Equity Research in target price calculations are available at www.genesta-finance.com.

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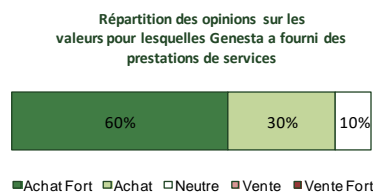
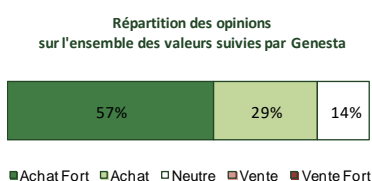
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Rating and target price evolution throughout the last 12 months

Date of 1 st publication	Rating	Target Price
25 th September 2018	Equity Flash Strong buy	€ 0.91
19 th July 2018	Equity Flash	€ 0.90
25 th March 2018	Equity Flash	€ 1.40
16 th March 2018	Equity Flash	€ 1.40
9 th February 2018	Equity Flash	€ 1.40
30 th October 2017	Equity Flash	€ 1.40

Ratings distribution



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