

Bonesupport Holding AS

Stronger commercial platform to make strategic inroads

Update

8 November 2018

The investment in the US and European commercial platforms should begin to bear fruit in the coming quarters, helping to achieve the targeted >40% sales CAGR post-2019. Q318 had been well flagged as the nadir for US sales following the termination of the Zimmer Biomet exclusive US distribution agreement. With the new 25-strong US distributor network selling CERAMENT BVF direct from October 22, and European sales expansion on track, market penetration should accelerate. Increasing sales activity, imminent top-line data from the CERTiFy study (CERAMENT BVF in trauma), and new H119 product launches should boost future sales. Our valuation is SEK2,042m or SEK37/share.

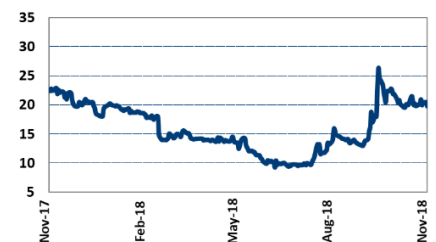
Year-end: December 31	2016	2017	2018E	2019E
Sales (SEKm)	104.6	129.3	102.1	228.0
Adj. PBT (SEKm)	(109.6)	(127.9)	(176.7)	(133.9)
Net Income (SEKm)	(110.2)	(128.9)	(177.8)	(134.4)
EPS (SEK)	(4.3)	(3.2)	(3.4)	(2.4)
Cash (SEKm)	141.5	533.4	267.4	114.2
EBITDA (SEKm)	(87.4)	(98.1)	(174.9)	(130.7)

Source: Trinity Delta

- Bigger and better US commercial infrastructure** First direct US CERAMENT BVF sales have been made by the distributor network, which according to management is of better quality and larger than originally expected. 18 independent distributors were targeted for 2018; 25 have been secured, comprising 512 reps which, unlike with Zimmer Biomet, are able to access the entire addressable market. Training is ongoing, with new and existing surgeon relationships being developed over the next 6 months. These will be leveraged following synergistic product launches (Collagen Matrix and MTF Biologics) in H119, and potentially CERAMENT G in 2021 (assuming FDA approval following positive FORTIFY read out /PMA filing in 2020).
- Positive European margin and growth trends** Q318 net sales (SEK14.2m) fell 56% y-o-y purely due to zero reported US sales. In Europe/RoW sales performance was strong (+29%), with CERAMENT G/V posting 35% growth and underpinning an impressive 91% gross margin. Three further hires will complete the European sales expansion, which has already improved Bonesupport's penetration of regions with key orthopaedic centres (particularly for trauma) where it has had limited presence. Greater sales impact of this expansion and marketing focus is expected from 2019.
- CERTiFy data: the next big thing** Various marketing initiatives are planned around top-line CERTiFy data, expected in December. This level 1 randomised prospective trial non-inferiority trial of CERAMENT BVF vs autograft, could, if positive, position BVF as a new standard of care in trauma, enabling share capture from autograft and other synthetic bone void fillers. Detailed results will be published in Q119.
- Valuation maintained at SEK37/share** Post-Q318 we have updated our model assumptions with a Europe long-term gross margin of 85% (from 80%), and higher near-term US operating costs reflecting a larger distribution network. Per share, these changes largely offset (valuation remains SEK37/share); on a whole company basis, there is an 8% valuation uplift to SEK2,042m (vs SEK1,892m previously). Commercial execution, CERTiFy data, and new US product launches represent near-term upside. Longer-term, it is FORTIFY data that we view as the key growth driver.

Price	SEK19.94
Market Cap	SEK1,108m
Enterprise Value	SEK595.3m
Shares in issue	55.6m
12-month range	SEK9.04-26.5
Free float	88.7%
Primary exchange	OMX Stockholm
Other exchanges	N/A
Sector	Healthcare
Company Code	BONEX

Corporate client Yes



Company description

Bonesupport is a Swedish orthobiologics company focused on developing and commercialising a pipeline of unique injectable drug eluting bioceramic bone graft substitutes based on its proprietary CERAMENT technology.

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Exhibit 1: Summary of financials

Year-end: Dec 31	SEKm	2015	2016	2017	2018E	2019E	2020E
INCOME STATEMENT							
Revenues		61.8	104.6	129.3	102.1	228.0	350.0
Cost of goods sold		(9.5)	(16.3)	(16.9)	(14.3)	(26.2)	(40.0)
Gross Profit		52.2	88.3	112.4	87.8	201.8	309.9
R&D costs		(19.0)	(38.2)	(60.6)	(69.0)	(73.8)	(67.7)
Sales costs		(56.2)	(79.8)	(92.9)	(129.6)	(191.6)	(235.5)
Admin costs		(31.7)	(60.7)	(57.5)	(65.4)	(68.8)	(71.6)
Other expenses		0.7	1.6	(0.7)	0.8	1.7	1.7
Underlying operating profit		(53.9)	(88.7)	(99.3)	(175.4)	(130.7)	(72.2)
Other revenue/expenses		0.0	0.0	0.0	0.0	0.0	0.0
EBITDA		(52.6)	(87.4)	(98.1)	(174.9)	(130.1)	(71.4)
Operating Profit		(53.9)	(88.7)	(99.3)	(175.4)	(130.7)	(72.2)
Interest income		0.0	0.0	0.0	0.2	0.4	1.1
Interest expense		(8.3)	(11.6)	0.0	(0.9)	(3.6)	(3.6)
Other financing costs/income		2.8	(9.2)	(28.6)	(0.5)	0.0	0.0
Profit Before Taxes		(59.4)	(109.6)	(127.9)	(176.7)	(133.9)	(74.6)
Adj. PBT		(59.4)	(109.6)	(127.9)	(176.7)	(133.9)	(74.6)
Current tax income		(0.1)	(0.6)	(1.0)	(1.1)	(0.5)	(0.3)
Net Income		(59.6)	(110.2)	(128.9)	(177.8)	(134.4)	(74.9)
EPS (SEK)		(2.5)	(4.3)	(3.2)	(3.4)	(2.4)	(1.3)
Adj. EPS (SEK)		(2.5)	(4.3)	(3.2)	(3.4)	(2.4)	(1.3)
DPS (SEK)		0.0	0.0	0.0	0.0	0.0	0.0
Average no. of shares (m)		23.5	25.8	39.8	52.0	55.6	55.6
<i>Gross margin</i>		84.6%	84.4%	87.0%	86.0%	88.5%	88.6%
<i>EBITDA margin</i>		N/A	N/A	N/A	N/A	N/A	N/A
BALANCE SHEET							
Current assets		105.7	183.7	588.1	314.6	191.1	128.7
Cash and cash equivalents		68.9	141.5	533.4	267.4	114.2	20.9
Accounts receivable		17.6	20.2	20.7	16.8	37.5	57.5
Other current assets		4.2	7.5	12.0	10.8	10.8	10.8
Non-current assets		5.9	5.1	8.6	9.7	11.6	13.7
Property, plant & equipment		0.6	0.4	3.1	3.4	3.7	4.1
Intangible assets		4.9	4.5	5.2	5.9	7.5	9.2
Other non-current assets		0.4	0.2	0.2	0.4	0.4	0.4
Current liabilities		(91.3)	(69.7)	(145.7)	(44.8)	(51.4)	(59.7)
Short-term debt		(62.9)	(25.1)	(98.6)	0.0	0.0	0.0
Accounts payable		(4.7)	(11.8)	(11.6)	(8.6)	(15.8)	(24.1)
Other current liabilities		(23.7)	(32.8)	(35.6)	(36.1)	(35.6)	(35.6)
Non-current liabilities		0.0	(84.8)	(0.2)	(0.2)	(0.2)	(0.2)
Long-term debt		0.0	(84.6)	0.0	0.0	0.0	0.0
Other non-current liabilities		0.0	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Equity		20.3	34.3	450.8	279.3	151.2	82.5
Share capital		580.1	687.7	1,220.4	325.0	325.0	325.0
Other		(559.7)	(653.4)	(769.7)	(45.7)	(173.9)	(242.6)
CASH FLOW STATEMENTS							
Operating cash flow		(65.3)	(81.9)	(107.5)	(165.7)	(150.6)	(90.5)
Profit before tax		(59.4)	(109.6)	(127.9)	(176.7)	(133.9)	(74.6)
Non-cash adjustments		10.4	28.5	45.3	9.2	10.0	9.4
Change in working capital		(9.9)	10.8	(12.5)	4.8	(22.6)	(22.5)
Interest paid		(6.3)	(11.6)	(11.7)	(1.6)	(3.2)	(2.4)
Taxes paid		(0.0)	(0.1)	(0.7)	(1.3)	(1.0)	(0.4)
Investing cash flow		(1.3)	(1.4)	(4.7)	(2.3)	(2.6)	(2.8)
CAPEX		(1.3)	(1.4)	(4.6)	(2.3)	(2.6)	(2.8)
Other investing cash flows		0.0	0.0	(0.1)	0.0	0.0	0.0
Financing cash flow		116.8	155.1	504.8	(98.9)	0.0	0.0
Proceeds from equity		120.0	103.7	532.8	0.0	0.0	0.0
Increase in loans		(2.8)	51.4	(27.9)	(100.1)	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0	0.0
Other financing cash flow		(0.4)	0.0	0.0	1.2	0.0	0.0
Net increase in cash		50.2	71.8	392.6	(267.0)	(153.2)	(93.3)
Exchange rate effects		0.3	0.8	(0.7)	1.0	0.0	0.0
Cash at start of year		18.4	68.9	141.5	533.4	267.4	114.2
Cash at end of year		68.9	141.5	533.4	267.4	114.2	20.9
Net cash at end of year		6.0	31.8	434.7	267.4	114.2	20.9

Source: Company, Trinity Delta Note: Historical adjustment of number of shares following 5:1 consolidation in 2017.

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