

Allium Medical Solutions

Making progress across the board

H118 financial update

Medical devices

20 August 2018

Price* **NIS1.15**
Market cap **NIS82m**

*Priced at 15 August 2018

Net cash (NISm) at end H118	16.6
Shares in issue (m)	71.5
Free float	60%
Code	ALMD
Primary exchange	TASE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(2.5)	(12.9)	50.4
Rel (local)	(3.7)	(16.5)	34.9
52-week high/low	NIS1.5		NIS0.8

Business description

Allium Medical Solutions is a company focused on developing and marketing minimally invasive devices 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	2018
Regulatory approval in additional markets for Allium and IBI	2018
Complete Allevetix first-in-human trial	Q418

Analysts

Juan Pedro Serrate	+44 (0)20 3681 2534
Jonas Peculis	+44 (0)20 3077 5728

healthcare@edisongroup.com

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Allium has reported H118 financial results. Revenues increased 31% y-o-y to NIS4.9m. As before, we continue to expect additional product approvals during 2018 and sales growth from its distribution deals in new and established markets. We maintain our FY18 sales forecast of NIS14m with a projected 2017-2020e revenue CAGR of 57%. We continue to believe that regional expansion is crucial to the company's investment case. Our valuation, updated for net cash of NIS16.6m, is NIS1.82 per share.

Year end	Revenue (NISm)	PBT* (NISm)	EPS* (NIS)	DPS (NIS)	P/E (x)	Yield (%)
12/16	7.4	(22.0)	(0.49)	0.0	N/A	N/A
12/17	7.7	(21.4)	(0.37)	0.0	N/A	N/A
12/18e	14.0	(13.7)	(0.19)	0.0	N/A	N/A
12/19e	21.0	(9.6)	(0.13)	0.0	N/A	N/A

Note: *Normalised, excluding amortisation of acquired intangibles and exceptionals.

H118 revenues 31% higher; FY18 forecast maintained

Revenues in H118 were up 31% to NIS4.9m vs NIS3.7m in H117. Sales have been driven mainly by Allium Stents in Europe and approvals in new territories, mainly China. Other marketed products are EndoFast fixation device for urogynecology in Europe and Israel, and Gardia's embolic protection system in Europe and the US. Importantly, the gross margin increased to 40% from 25% in H117 due to economies of scale, higher prices and higher efficiency of the production process. R&D spend was similar to H117 (NIS7.3m and NIS7.1m respectively), while S&M expenses were up 33% due to increased marketing activity. G&A expenses grew 37% to NIS4.9m due to non-cash costs associated with stock-based compensation resulting from an option grant worth NIS769k and one-off costs for Allevetix patents. We maintain our FY18 revenue forecast of NIS14m as we expect sales to accelerate in H218 due to increasing marketing activity in new territories. We also maintain our FY18 EBITDA loss forecast of NIS13.2m (NIS11m loss in H118) as some H118 expenses were one-off. That said, we see some downside risk to our estimates. We expect cash of NIS16.6m at end H118 to provide runway into H219.

Consolidating its business

The full portfolio of ureteral stents is being marketed in China under a distribution agreement worth NIS58m over eight years. Furthermore, the prostatic and bulbar urethral stents and EndoFast are approved in Russia; we expect approval and marketing of the rest of the stents this year (distribution agreement worth NIS48m over five years). Additionally, Allium sells its ureteral stents in Mexico and we expect approval of the rest of stents and EndoFast in the country by end-2018 (distribution agreement worth NIS26m over five years). Gardia Medical's Wirion system is FDA approved for leg artery catheterisation; it is the only embolic protection system cleared by the FDA with all atherectomy devices. The product is CE marked, and marketed in selected US and European centres. Allium's strategy is to reach a strategic agreement with an industry leader. In its H118 report, it estimates reaching such an agreement in Q318.

Valuation: Updated DCF value of NIS1.82/share

Our valuation is NIS1.82/share (NIS1.91 before) as we update our model for net cash of NIS16.6m. All our underlying assumptions are unchanged.

Exhibit 1: Financial summary

	NIS'000s	2016	2017	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		7,353	7,703	13,972	20,993
Cost of Sales		(5,171)	(5,687)	(8,579)	(10,520)
Gross Profit		2,182	2,016	5,392	10,474
EBITDA		(20,377)	(20,826)	(13,174)	(9,014)
Operating Profit (before amort. and except.)		(20,759)	(21,219)	(13,549)	(9,347)
Intangible Amortisation		(1,579)	(1,623)	(1,551)	(1,378)
Exceptionals		(295)	0	0	0
Operating Profit		(22,632)	(22,842)	(15,100)	(10,725)
Net Interest		(1,283)	(163)	(135)	(202)
Exceptionals		0	0	0	0
Other		0	0	0	0
Profit Before Tax (norm)		(22,042)	(21,382)	(13,684)	(9,550)
Profit Before Tax (IFRS)		(23,916)	(22,679)	(15,236)	(10,928)
Tax		0	0	0	0
Profit After Tax (norm)		(22,042)	(21,382)	(13,684)	(9,550)
Profit After Tax (IFRS)		(23,916)	(22,679)	(15,236)	(10,928)
Average Number of Shares Outstanding (m)		44.97	58.25	71.54	71.54
EPS - normalised (NIS)		(0.49)	(0.37)	(0.19)	(0.13)
EPS - IFRS (NIS)		(0.53)	(0.39)	(0.21)	(0.15)
Dividend per share (NIS)		0.00	0.00	0.00	0.00
Gross Margin (%)		30%	26%	39%	50%
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		23,616	22,244	20,417	18,806
Intangible Assets		22,465	20,916	19,364	17,986
Tangible Assets		1,025	1,059	784	550
Restricted cash		126	269	269	269
Current Assets		28,606	29,609	15,815	26,627
Stocks		2,516	2,661	2,278	2,534
Debtors		1,253	1,491	1,531	2,013
Cash, equivalents and short term deposits		23,203	22,953	9,501	19,576
Other		1,634	2,504	2,504	2,504
Current Liabilities		(12,660)	(11,962)	(11,798)	(12,147)
Creditors		(1,890)	(1,987)	(1,823)	(2,172)
Accruals		(936)	(185)	(185)	(185)
Other short term liabilities		(4,124)	(4,373)	(4,373)	(4,373)
Long Term Liabilities		(1,368)	(1,134)	(913)	(20,692)
Long term borrowings		0	0	0	(20,000)
Other long term liabilities		(1,368)	(1,134)	(913)	(692)
Net Assets		38,194	38,757	23,521	12,593
CASH FLOW					
Operating Cash Flow		(17,258)	(18,418)	(13,131)	(9,605)
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(220)	(501)	(100)	(100)
Acquisitions/disposals		0	(4,005)	0	0
Financing		13,956	19,125	0	0
Dividends		0	0	0	0
Other		(328)	(456)	(221)	(221)
Net Cash Flow		(3,850)	(4,255)	(13,452)	(9,926)
Opening net debt/(cash)		(27,053)	(23,203)	(22,953)	(9,501)
HP finance leases initiated		0	0	0	0
Other		0	4,005	0	0
Closing net debt/(cash)		(23,203)	(22,953)	(9,501)	424

Source: Company accounts, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia

Tel Aviv +44 (0)20 3734 1007
Medinat Hayehudim 60
Herziya Pituchai, 46766
Israel