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Allium Medical Solutions

H118 financial update

Making progress across the board

Medical devices

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.

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

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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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