

Allium Medical Solutions

FY16 update

Growth continues, investment case reinforced

Allium Medical Solutions has reported FY16 financial results, which impressed with revenue growth of 42% to NIS7.4m vs NIS5.2m in 2015, in line with our expectations. Gross margin doubled to 30%. This increase comes mainly from Allium Stents and IBI Medical. We are encouraged to see that the company continued to execute on its business plan of organic growth and margin expansion; therefore, the investment case remains intact, in our view. We maintain our revenue CAGR forecast of 41% in 2016-20e and our DCF valuation of NIS1.95-2.08/share.

Year end	Revenue (NISm)	PBT* (NISm)	EPS* (NIS)	DPS (NIS)	P/E (x)	Yield (%)
12/15	5.2	(18.5)	(0.65)	0.0	N/A	N/A
12/16	7.4	(22.0)	(0.49)	0.0	N/A	N/A
12/17e	11.2	(15.7)	(0.30)	0.0	N/A	N/A
12/18e	17.5	(7.1)	(0.13)	0.0	N/A	N/A

Note: *PBT/EPS are normalised, excl. amortisation of acquired intangibles and exceptionals.

Revenues grew 42% y-o-y; gross margin expands

Revenues grew 42% year-on-year with c 70% of sales coming from Allium Stents, and the rest mainly from IBI Medical (EndoFast urogynecology). While the main market was still Europe, other regions such as South Korea, Argentina, Australia, Canada and South Africa gained traction in 2016 as well. Allium has distribution agreements worth c NIS185m for its peripheral stents and IBI products which could continue to support a double-digit percentage increase in total revenues. Gross margin doubled from 15% in 2015 to 30% in 2016, due to economies of scale and increasing revenues. G&A expenses remained stable over 2016, increasing by 6% due to non-cash stock-based compensation expenses. S&M costs increased 38%, albeit from a low base of NIS2.1m to NIS2.9m. R&D spend was up 32% to NIS13.5m as a result of an increased investment related to Allevetix (gastroduodenal bypass sleeve), Gardia (embolic protection system) and the initiation of the TruLeaf mitral valve replacement project. Having incorporated FY16 numbers, we have slightly adjusted our cost and earnings forecasts.

R&D projects on track

During Q416, Allium announced the finalisation of Allevetix design freeze and positive *in vivo* data. A first in man trial is on track to start by YE17; additionally, a [patent](#) has been granted in China, the biggest global market for both obesity and diabetes. Gardia is on track to complete enrolment of a 100-patient trial in the US and present data in 2017, sufficient to expand its indication to the large opportunity of lower extremities. Finally, Allium will conduct a trial of its mitral valve replacement device in big animals this year.

Valuation: DCF of NIS1.95-2.08/share unchanged

We maintain our DCF valuation of NIS1.95-2.08/share. We estimate that end-2016 cash of NIS23.2m will be sufficient to fund operations over the next 12-24 months, depending on growth rates and cost control. Potential catalysts this year include continued regional expansion, delivery on growth expectations and Gardia data.

Medical devices

16 March 2017

Price* **NIS1.19**

Market cap **NIS63m**

*Priced at 13 March 2017

	US\$/NIS3.85
Net cash (NISm) at end 2016	23.2
Shares in issue	52.9m
Free float	76%
Code	ALMD
Primary exchange	TASE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(7.2)	(3.7)	(25.4)
Rel (local)	(7.8)	(3.9)	(25.7)
52-week high/low	NIS1.7		NIS1.1

Business description

Allium Medical Solutions is a company focused on developing and marketing minimally invasive solutions 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	2017
Start Allevetix first in man clinical trial	2017
Regulatory approval in additional markets for Allium and IBI	2017
Completion of Gardia clinical trial	2017
TruLeaf trial in big animals	2017

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[Edison profile page](#)

Exhibit 1: Financial summary

	NIS'000	2014	2015	2016	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		4,916	5,178	7,353	11,196	17,470
Cost of Sales		(5,699)	(4,421)	(5,171)	(7,819)	(10,126)
Gross Profit		(783)	757	2,182	3,377	7,343
EBITDA		(20,373)	(16,333)	(20,375)	(14,728)	(6,299)
Operating Profit (before GW and except.)		(20,758)	(16,759)	(20,757)	(15,349)	(6,858)
Intangible Amortisation		(2,032)	(1,705)	(1,579)	(1,436)	(1,293)
Exceptionals		(1,262)	(720)	(297)	0	0
Operating Profit		(24,052)	(19,184)	(22,632)	(16,784)	(8,151)
Net Interest		(593)	(1,748)	(1,284)	(361)	(213)
Exceptionals		0	0	0	0	0
Other		0	0	0	0	0
Profit Before Tax (norm)		(21,351)	(18,507)	(22,041)	(15,709)	(7,070)
Profit Before Tax (IFRS)		(24,645)	(20,932)	(23,917)	(17,145)	(8,363)
Tax		0	0	0	0	0
Profit After Tax (norm)		(21,351)	(18,507)	(22,041)	(15,709)	(7,070)
Profit After Tax (IFRS)		(24,645)	(20,932)	(23,917)	(17,145)	(8,363)
Average Number of Shares Outstanding (m)		18.43	28.53	44.97	52.94	52.94
EPS - normalised (NIS)		(1.16)	(0.65)	(0.49)	(0.30)	(0.13)
EPS - IFRS (NIS)		(1.34)	(0.73)	(0.53)	(0.32)	(0.16)
Dividend per share (NIS)		0.00	0.00	0.00	0.00	0.00
Gross Margin (%)		-16%	15%	30%	30%	42%
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		28,218	25,612	23,616	21,660	19,908
Intangible Assets		26,438	24,059	22,465	21,029	19,736
Tangible Assets		1,780	1,472	1,025	505	46
Restricted cash		0	81	126	126	126
Current Assets		16,629	31,342	28,605	13,163	6,981
Stocks		2,330	2,277	2,516	2,527	2,834
Debtors		686	889	1,253	1,534	1,914
Cash		12,940	27,053	23,202	7,469	599
Other		673	1,123	1,634	1,634	1,634
Current Liabilities		(5,560)	(5,620)	(12,660)	(12,507)	(13,037)
Creditors		(1,516)	(1,524)	(1,890)	(1,737)	(2,267)
Accruals		(1,820)	(1,895)	(936)	(936)	(936)
Other short term liabilities		(2,224)	(2,201)	(4,124)	(4,124)	(4,124)
Long Term Liabilities		(7,127)	(6,207)	(1,368)	(1,268)	(1,168)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(7,127)	(6,207)	(1,368)	(1,268)	(1,168)
Net Assets		32,160	45,127	38,193	21,048	12,685
CASH FLOW						
Operating Cash Flow		(19,026)	(15,874)	(17,259)	(15,533)	(6,670)
Net Interest		0	0	0	0	0
Tax		0	0	0	0	0
Capex		(349)	(164)	(220)	(100)	(100)
Acquisitions/disposals		0	0	0	0	0
Financing		25,191	31,992	13,956	0	0
Dividends		0	0	0	0	0
Other		(41)	(1,841)	(328)	(100)	(100)
Net Cash Flow		5,775	14,113	(3,851)	(15,733)	(6,870)
Opening net debt/(cash)		(7,165)	(12,940)	(27,053)	(23,202)	(7,469)
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	0	0
Closing net debt/(cash)		(12,940)	(27,053)	(23,202)	(7,469)	(599)

Source: Edison Investment Research, Allium Medical Solutions accounts.

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