

Share at 03/01/2017 (c) 5,50 €

Alternext Paris

Reuters / Bloomberg

ALMED.PA / ALMED:FP

Medicrea*Medtech*

Performance (%)	Ytd	1m	3m	12m
Absolute perf	1,9%	-5,2%	10,0%	3,0%
CAC Small perf	4,6%	2,5%	15,9%	23,7%

Market data

Market capitalisation	55,2
Number of shares (in millions)	10,03
12-month average volume (shares)	8 742
12-month trading range	4,33 € 6,47 €

Major shareholders

Institutional investors	73%
Orchard International (Denys Sournac)	26%
Employees	1%

Financial data (in €m)

au 31/12	2015	2016e	2017e	2018e
Sales	27,8	29,4	35,9	41,8
%change	14,7%	5,8%	22,1%	16,6%
EBITDA	2,0	-0,5	-0,9	3,4
%of sales	7,2%	-1,7%	-2,4%	8,1%
Current Op result	-1,5	-4,3	-5,2	-1,3
%of sales	-5,6%	-14,7%	-14,6%	-3,0%
Net result, Group share	-1,5	-7,6	-7,4	-3,4
%of sales	-5,5%	-26,0%	-20,7%	-8,0%
EPS (€)	-0,17	-0,76	-0,74	-0,33
ROCE (%)	-4%	-12%	-14%	-4%
ROE (%)	-10%	-60%	-143%	-49%
Gearing (%)	54%	8%	342%	232%
Net debt	8,3	10,2	17,8	15,9
Dividend n (€)	0,00			
Yield (%)	0,0%			

Ratios

	2015	2016e	2017e	2018e
EV/Sales (x)	2,8	2,2	2,0	1,7
EV/EBITDA (x)	39,1	ns	ns	21,1
EV/Current Op Result (x)	ns	ns	ns	ns
PE (x)	ns	ns	ns	ns

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With the participation of Marc-Antoine Brillant

An American ambition

- **Medicrea is specialised in the manufacturing and distribution of spinal implants. With 60% of its activity in the United States, the company generated sales of €29.4 million in 2016 (+5.8%) and has posted a CAGR of +9.2% over the past five years. Thanks to a €20 million fundraising last August and the arrival of Richard Kienzle (a founder member of Globus Medical) as a Board director, shareholder and Chief Commercial & Business Development Officer, Medicrea will be able to accelerate the commercial development of UNiD® in the American continent, heralding strong growth through to 2018 (Sales CAGR of +12.5%e).**
- Backed by a reinforced manufacturing capability and five distribution subsidiaries enabling it to address more than 25 countries, Medicrea looks to have the perfect scale to support its growth in the coming years.
- Medicrea is positioned in the spinal implant market which is estimated at US\$10bn in 2014 (source: Medicrea), **with the growth forecasts between now and 2019 (CAGR of +5.5%) pointing to a potential US\$14.6bn (source: Technavio).** The increase in obesity, an ageing population and the impact of innovation are all long-term growth factors that are set to underpin the Group.
- Despite a short-term increase in fixed costs, **Medicrea will benefit from an improvement in its gross margin given: 1/ a favourable geographical mix (higher gross margin rate in the US than in France), 2/ the optimisation of its manufacturing facility 3/ the achievement of economies of scale, and 4/ a reduction in indirect sales. We are targeting 80.0% by 2018e (vs 78.5% In 2015) and 85.0% over the long term.**

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Investment case

The leader in customised spinal implants

Medicrea specialises in the design, manufacturing and distribution of implants for spinal column surgery. Through a comprehensive range, it addresses the different pathologies of the spine and, in particular, the thoracolumbar segment. Since 2013, the company has been marketing UNiD®, a customised offer approved by the FDA with which more than 1,000 operations have been realised. With its strong positioning in the United States (60% of 2016 sales and 33 FDA-cleared products), the company is aiming to capture a non-negligible share of the 356,000 operations using rods in the North American market. In this respect, the arrival of Richard Kienzle (a founder member of Globus Medical) as a Board director, shareholder and Chief Commercial & Business Development Officer constitutes a strong signal.

A business model scaled for growth

Medicrea has the required capacity to support the ramp-up of UNiD®, at both commercial and industrial level. Distributed in more than 25 countries, Medicrea products are mainly marketed directly (75% of sales) via distribution subsidiaries in the key markets (France, Germany, Poland, the United States and the United Kingdom). Similarly, Medicrea has reinforced its manufacturing capability, thereby guaranteeing its independence, flexibility and irreproachable quality standards.

A substantial market underpinned by long-term growth drivers

Estimated by Medicrea at US\$10bn in 2014, the spinal implants market is expected to grow to US\$14.6bn by 2019, of which US\$10.6bn for the Americas region, i.e. a 2015-19 CAGR of +5.5% (source: Technavio). Thanks to its direct representation in the region and the originality of its offer, Medicrea is perfectly positioned to benefit from the major demographical and economic trends affecting its market (obesity, innovation, ageing population, etc.).

A results improvement

Despite a short-term increase in fixed costs, **Medicrea will benefit from an improvement in its gross margin given:** 1/ a favourable geographical mix (higher gross margin rate in the United States vs France), 2/ the optimisation of its manufacturing facilities, 3/ the achievement of economies of scale, and 4/ a reduction in indirect sales. We are targeting 80.0% by 2018e (vs 78.5% in 2015). Over the long term, Medicrea should be able to approach 85.0%.

SWOT

Strengths

- Leader of the customised implant market for thoracolumbar spinal pathologies (UNiD® solution)
- Comprehensive offer of products and solutions
- End-to-end integration of the value chain (research, manufacturing, marketing),
- Solid presence in the United States (60% of sales in 2015 and 33 FDA-cleared products)
- R&D policy (averaging 10% of sales since 2008)
- Arrival of Richard Kienzle (a founder member of Globus Medical)
- More than 100,000 operations since 2002

Weaknesses

- Small size vs the US competitors
- Weak international brand profile
- High fixed-cost business
- High level of cash burn

Opportunities

- The IBD market is expected to be worth US\$53bn by 2020 (CAGR of +6.2%)
- Realisation of an in-fill acquisition
- Improved access to health care in the emerging markets
- Growing appeal of personalised medicine

Threats

- Slower-than-expected adoption of UNiD®
- Increased pricing pressure in Europe in view of governmental policies
- Conservative nature of the US medical industry
- Failure of new product launches

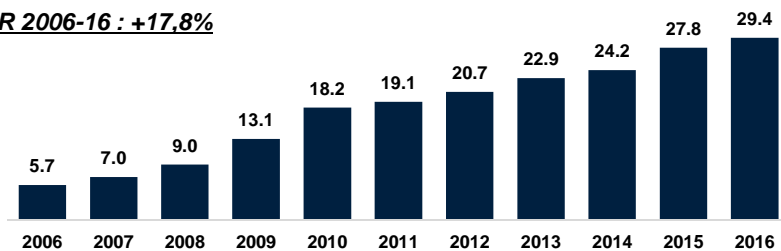
The appeal of customised

Born of the merger between Medicrea and Orsco International in 2002, Medicrea is a company specialising in the design, manufacturing and distribution of implants for complex and personalised spinal surgery. Primarily addressing spine surgeons, since 2011 the company has invested in developing a customised offer with its UNiD® solution. As a real technological innovation, UNiD® is the company's strategic focus for the next three to five years. In parallel, Medicrea has a comprehensive product range enabling it to address all pathologies of the spine (cervical, thoracolumbar and sacral).

Having been listed for trading on Alternext since 2006, Medicrea has grown only organically, recording a 2006-16 sales CAGR of +17.8% to €29.4 million in the most recent financial year. This strong growth has been driven by a substantial investment in R&D with the company having devoted an average of 10% of sales to innovation since 2008.

Trend in Medicrea's sales since 2006

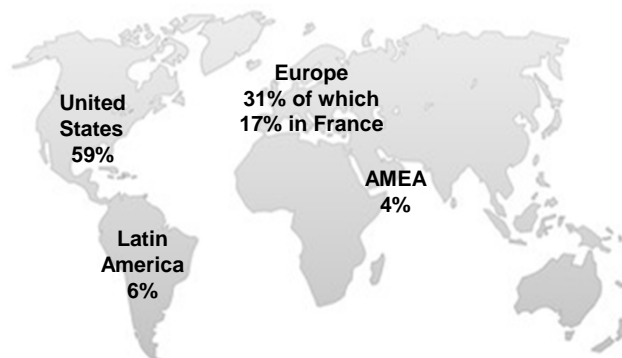
CAGR 2006-16 : +17,8%



source : company

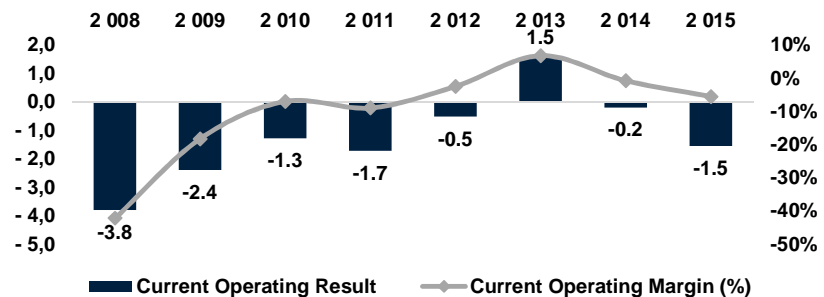
Already present in the spine sector's key markets (United States, United Kingdom, Germany), Medicrea plans to accelerate its international growth, particularly in the United States, and is targeting sales of €50 million by 2019. To this end, the Group can leverage its wholly in-house manufacturing facility based in France and direct distribution via its subsidiaries (75% of sales).

Breakdown of sales by geography (2015 data)



source : company

Trend in Medicrea's profitability since 2008



source : company

While Medicrea has posted a positive EBITDA since 2010 (peak of €4.3 million in 2013), the current operating result has largely been in the red given the massive investment devoted to the commercial development of UNiD®. Having reached a positive €1.5 million in 2013, the current operating result plummeted to €(1.5) million in 2015. Although this level of investment puts short-term profitability under pressure, it is proving vital to penetrating key markets like the United States. Following a record €20.0 million fundraising (€15.0 million in the form of convertible bonds and €5.0 million via a private placing) in August 2016 with mainly US investors, Medicrea now has the resources to continue its growth across the Atlantic. Over the longer term, the achievement of critical mass and an improvement in the geographical mix will be the main levers for profitability, in our view.

History

2002: Medicrea International is born of the merger between Orsco International and Medicrea.

2005: Medicrea gains a presence in the UK by setting up a distribution subsidiary.

2006 Medicrea is listed for trading on Alternext Paris, raising €11.6 million to finance its commercial development.

2007: The company gains a physical presence in the US, the leading global market, with the opening of a distribution subsidiary. In 2015, the region represents 59% of sales.

2008: The PASS LP® posterior thoracolumbar fixation system is cleared by the FDA.

2009: The company crosses the €10 million sales threshold and launches its GRANVIA® cervical disc prosthesis dedicated to instrumented non-fusion procedures.

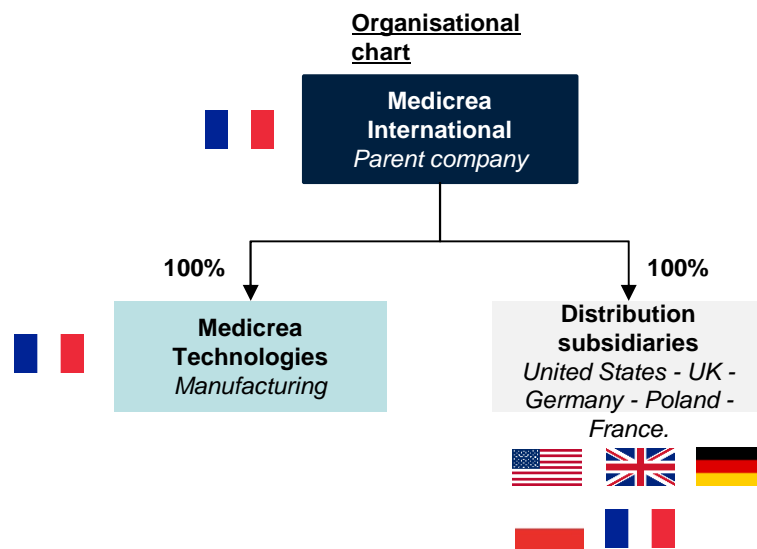
2012: Medicrea reaches the €20 million sales threshold.

2013: The world's first customised UNiD® Rod is positioned with PASS LP®.

2014: The world's first customised 3D-printed spine cage. The UNiD® Rod is cleared by the FDA.

2015: Medicrea obtains its thirtieth FDA approval.

2016: In just three years, more than 1,000 surgical procedures are realised with customised UNiD® Rods. Since its inception in 2002, more than 100,000 operations have taken place using Medicrea products.

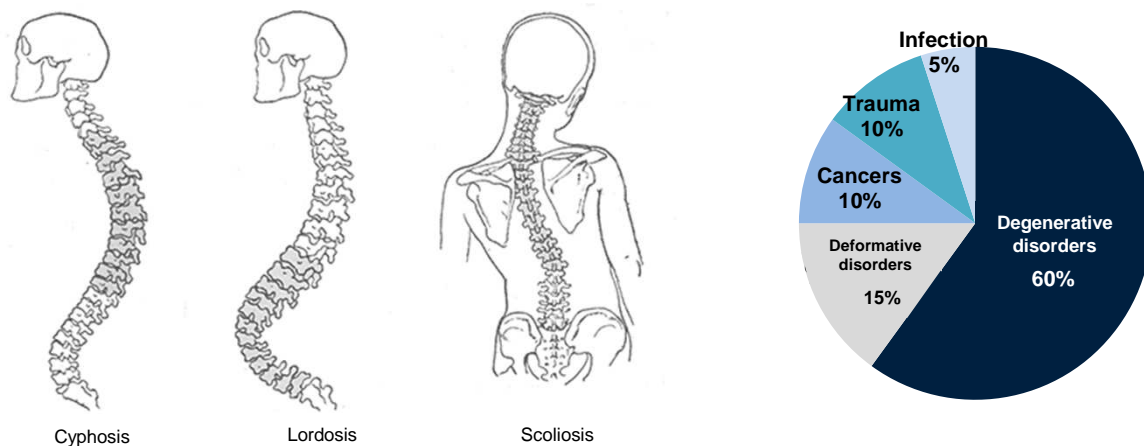


Sagittal alignment, the company's DNA

A delicate balance

The human being's upright position and aptitude for walking on two feet are only possible thanks to a delicate alignment between the pelvis and the rest of the spine. Dubbed the spino-pelvic or sagittal alignment, this equilibrium specific to each individual can be affected by a number of disorders, directly threatening the ergonomics of the human body by modifying the curvature of the spine.

The major deformities of the spinal column (G) and the origin of spine surgery (D)



sources : EuroLand Corporate, Technavio 2015

These three major deformative disorders produce long-term effects, combining pain, bone erosion and deformity:

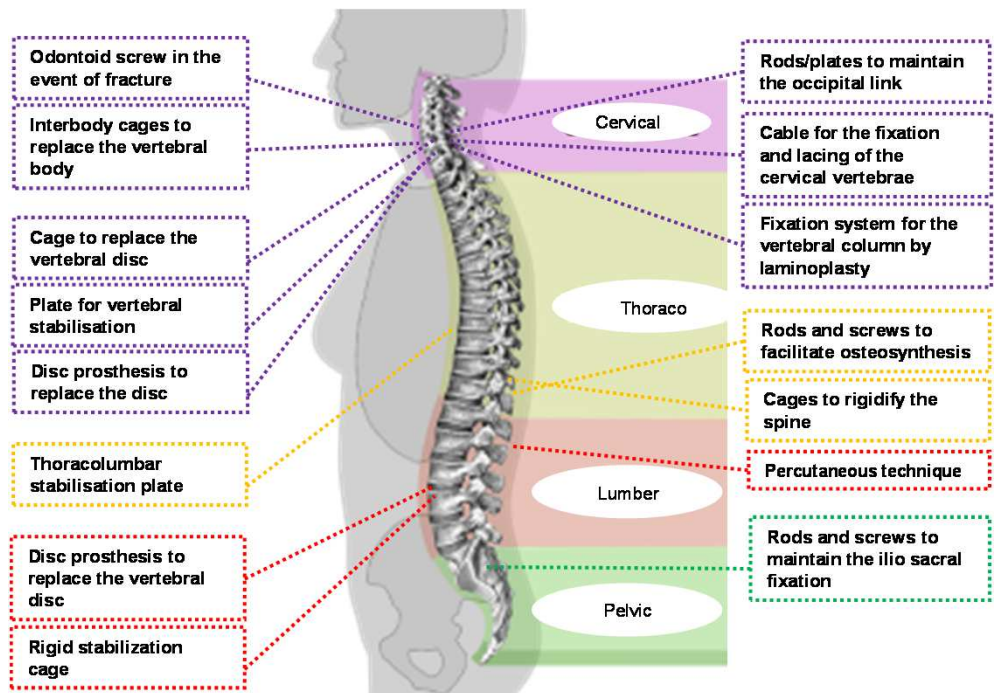
- **Degenerative pathologies** mostly present in the form of compression of a nerve root or the spinal cord (hernia), narrowing of the spinal nerve passages (stenosis), natural degradation (disc disease) or a deformity involving several dimensions (scoliosis). In addition to a high degree of pain, they also generate postural instability due to excessive vertebral disc mobility, which becomes even more of a problem as the patient seeks to compensate for this;
- **Traumatic pathologies** which take two forms, collapsing vertebrae and fractures. They are fairly frequent and, in the most serious cases, can cause neurological damage;
- **Tumoral pathologies** often originating from so-called 'solid' tumour metastases located in other parts of the human body. In their most aggressive forms, they can cause pathologic fractures.

Not all these disorders systematically require surgery. However, the surgical route may be an option in the most acute cases where there is persistent pain. Its aims can include alleviating the pressure on the spinal nerves, stopping excessive mobility between two vertebrae or replacing a damaged spinal disc.

Instrumented fusion surgery

There are two surgical methods for treating spinal disorders: instrumented and non-instrumented. Unlike the non-instrumented methodology which recommends the use of bone grafts, instrumented surgery involves the insertion into the patient's body of an Inter Body Device (IBD) or implant, to correct the anomaly and return the spine to sagittal alignment.

Main IBDs in instrumented spinal column surgery



source : EuroLand Corporate

The instrumented method offers two different operating techniques. The technique known as 'non fusion' - or arthroplasty - consists of replacing a damaged disc with a disc prosthesis to re-establish the spinal equilibrium while preserving natural mobility. Although of interest at physiological level, this technique represents only 5% to 10% of operations.

The 'fusion' or arthrodesis technique aims to rigidify the portion of the spinal column which is penalised by the excessive mobility between two or several vertebrae. At cervical and thoracolumbar level, it consists of using pedicle screws which are inserted into each vertebra and connected by a plate or metal rod to the rear of the spine. Another method consists of using titanium or polymer interbody cages during an intervertebral fusion. These cages restore and maintain the intervertebral height after discectomy (removal of a disc), while waiting until the bone forms a bridge between two or several vertebrae to stabilise the spine by arthrodesis.

While it is effective in terms of treating the pain and deformity, the fusion technique does have the disadvantage of reducing or even preventing disc mobility. Although invasive, it nonetheless represents more than 75% of surgical interventions.

Main IBDs used in in spinal column instrumented surgery



*Thoracolumbar
osteosynthesis system
with PASS LP® pedicles
and rods*



*IMPIX-C® cervical interbody
cage*



source : Euroland Corporate

Having been present in the supply of instrumented fusion surgery products and solutions for the past fifteen years, Medicrea has mainly focused on the treatment of thoracolumbar disorders which the company claims represent 35% of the orthopedic IBD market.

The strategic asset represented by UNiD®

UNiD® represents a real technological breakthrough in the spinal surgery space in that it is a service solution addressing surgeons. Since it uses digital technologies, it relieves the surgeon of responsibility for pre-operative planning and guarantees patients the pre-operative production of pre-contoured rods customised to their sagittal alignment. This innovation thus achieves two of the major objectives of modern medicine in that it:

- Increases the surgeon's effectiveness both before and during the operation, by freeing up consulting time,
- Reduces the post-operative revision risk by reducing/eliminating errors linked to unsuitable implants.

With this new offer, Medicrea is aiming to capture a non-negligible share of the 356,000 operations using rods in the North American market.

A rational approach to surgery

While all its spine surgery competitors propose only a rod which is bent manually by the surgeon during the operation (a potential source of adjustment errors) Medicrea is creating a whole new paradigm with a customised device dubbed UNiD®.

Launched in 2011, the UNiD® project is backed by one indisputable finding which remains valid: 62% of patients undergoing spinal operations remain malaligned after surgery. Operations on the spinal column to treat thoracolumbar disorders are classed as complex surgery and use relatively intuitive operating techniques. During the operation, it is the surgeon who evaluates the curvature to be given to the rods used to straighten the spine. Despite the high qualification level of medical practitioners, adjustment errors remain numerous, the rod being bent manually with the help of a rudimentary instrument.

Current standard of spine operations

1. The surgeon personally reviews the patient's x-rays



The surgeon defines the alignment parameters in an empirical way and plans the surgery

2. During surgery, the surgeon personally tightens the rods



With the help of a rudimentary instrument, the surgeon manually bends the rod to give it the required curvature.

9% to 10% of rods tightened in this manner break.

3. Post-surgery, the surgeon checks the results using the x-rays



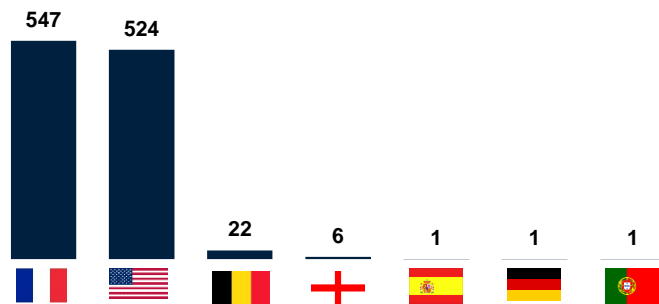
Post-surgery, the surgeon has corrected the spinal deformity but cannot guarantee the appropriate level of manual tightening for the patient's sagittal equilibrium.

110 surgeons have used UNiD® since its launch of whom 59 in the United States and 40 in France

source : Euroland Corporate

Backed by this evidence, Medicrea has developed another approach to spinal surgery focused primarily on preserving the patient's sagittal equilibrium. Using X-rays, the UNiD Lab teams model the operating process in liaison with the surgeon. Using a software developed in cooperation with a company based in the United States, this in-house Group unit designs, manufactures and ships the pre-contoured patient-specific rods tailored to their individual spinal curvature. This approach is rational in that the pre-operative planning and manufacturing of the rod are based on the use of objective data assisted by the software.

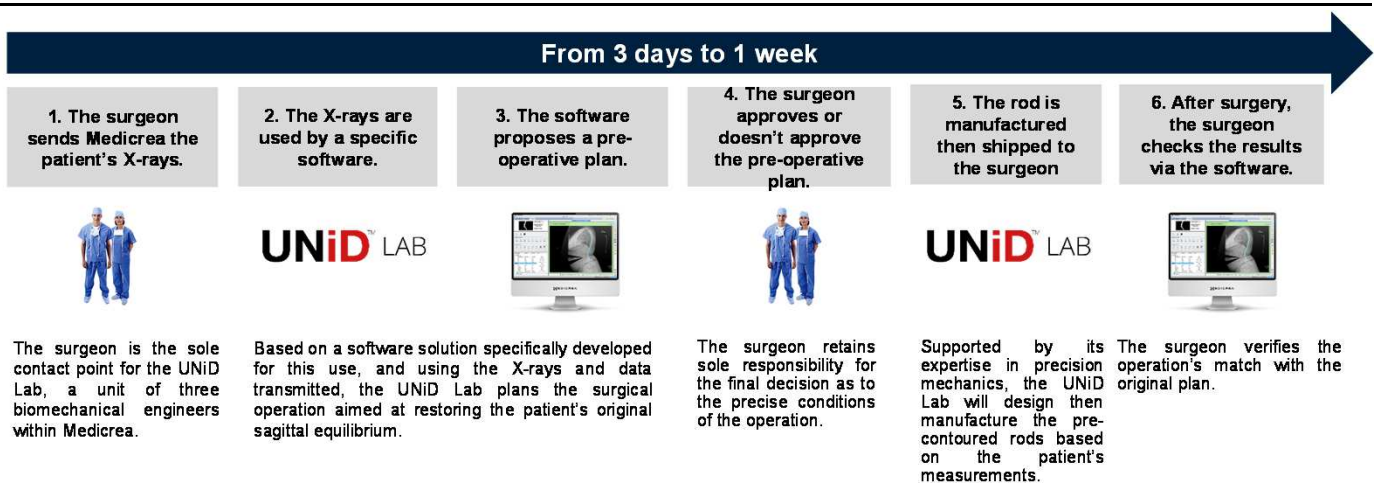
Number of operations by country since the launch of UNiD® (at 31/12/2016)



source : company

Since its launch, UNiD® has encountered growing success, in both France and the United States. However, in view of the role the French government plays in setting prices for healthcare services, its commercial future will primarily be in the US market. The price of a rod in France is effectively fixed at around €70 (the level of reimbursement by the French Social Security system) whereas its US price reaches US\$1,500 for a pre-contoured model (vs. US\$400 for a standard rod).

The UNiD® process



source : Euroland Corporate

A comprehensive product range

Within the company, the R&D division is steered by a group of ten engineers, supported by a selection of experienced surgeons. This dual vision enables the envisaged solutions to remain in touch with the reality of the operating table. Backed by this wealth of knowledge and experience, Medicrea has developed an extensive range of implants tailored to all spinal pathologies and all the levels at which they present (cervical, thoracolumbar and sacral).

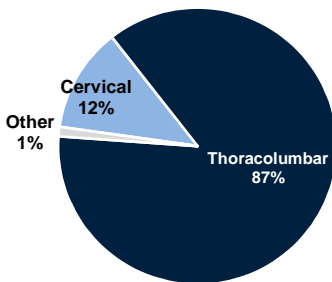
In the **cervical** segment, the offer is based on three product types: IMPIX® interbody cages, JAWS® compressive staples and the GRANVIA® cervical disc prosthesis.

In the **thoracolumbar** segment, Medicrea's core business, the offer is more extensive with the PASS® range (stabilisation and fixation system), IMPIX® lumbar interbody cages and the UNiD® technology.

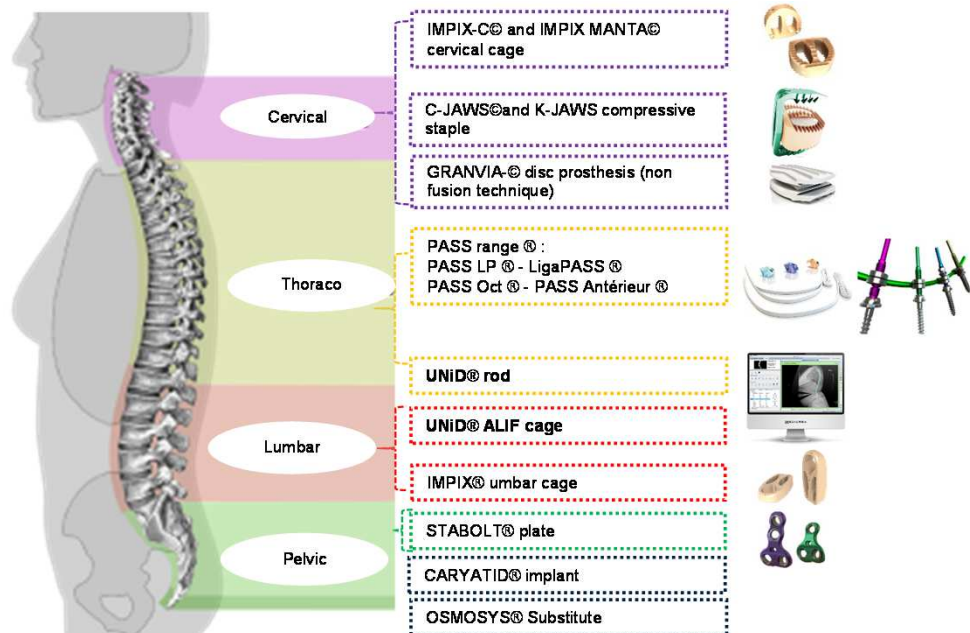
In the **pelvic** segment, the STABOLT® plate completes the Medicrea offer.

Lastly, since it is looking to address the spinal degenerative pathology segment, Medicrea is finalising the development of a 'tulip' screw whose market launch is planned for the 2017 first quarter.

2015 sales by range



Medicrea product range



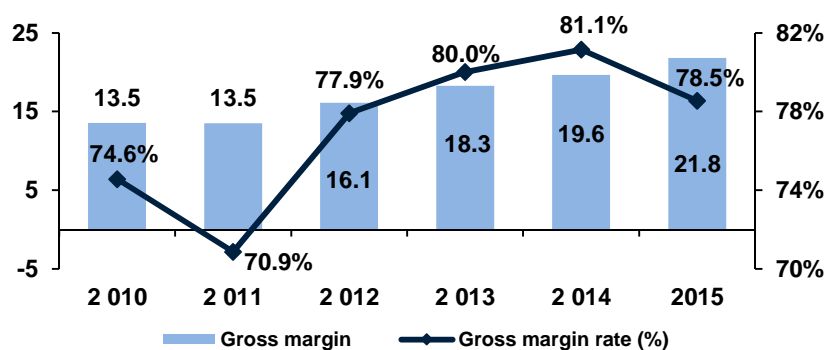
source : Euroland Corporate

Optimising the operational structure

A rationalised in-house manufacturing facility

Since it operates within an industry subject to regulatory constraints and to be able to guarantee an irreproachable level of quality, Medicrea has opted to maintain virtually all its manufacturing in house. Previously located in La Rochelle, the manufacturing facility has been regrouped with the new headquarters in the Lyons area since early 2017. Based on a continuous improvement rational, the Group has also purchased prototyping and 3D-printing machines to increase its responsiveness to surgeon requests and plans to bring back in-house some tasks, like implant sterilisation, which have hitherto been out-sourced. By further automating its manufacturing process, the company thus plans to maintain its gross margin at above 80% over the long term.

Trend in the gross margin since 2010



source: company

Since it mostly deals with French suppliers, the Group's procurement is mainly in euros (90%). However, the currency risk remains low and non-cash in that the US subsidiary is in the middle of the investment phase. As a result, no flows of cash are repatriated to the parent company based in France. Furthermore, since pricing is not regulated in the US market, Medicrea would be able to pass on any price fluctuations.

Distribution mainly direct

Distributed in more than 25 countries, Medicrea products are mostly sold directly via distribution subsidiaries in the key markets (France, Germany, Poland, United States and United Kingdom), meaning that 75% of the business is realised through these entities. This distribution method has a triple advantage in that it: 1/ enables the Group to capture a bigger share of the value added, 2/ gives it control over the commercial approach and 3/ guarantees direct contact with customers. The indirect sales (25%) are via distribution agreements with distributors lasting three to five years. The share of the latter distribution method is tending to decline currently in view of its low gross margin (around 60%).

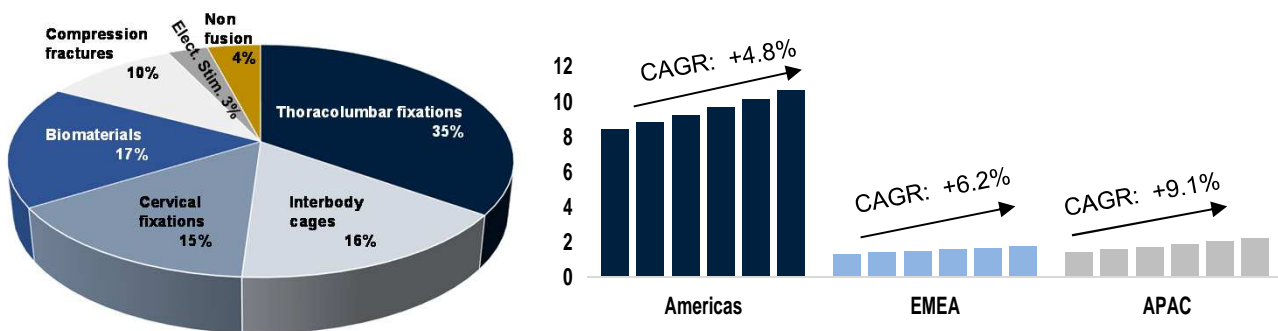
Spinal implants: a flourishing market

While it distributes its products in more than 25 countries (83% of sales were generated internationally in 2015), Medicrea has clearly oriented its strategy towards the United States, the number one world market for spinal implants and, unlike, Europe, a zone in which prices are unregulated. With more than 30 product clearances from the FDA, the company is looking to establish its UNiD® technology with most surgeons as the reference product in the new spinal column medicine: customised.

IBDs: a market estimated at US\$53bn in 2020

According to orthopedics specialist Avicenne, the global market for orthopedic implants grew by 4.4% in 2014 to an overall world-wide volume of US\$37 billion, of which US\$10 billion for the spine (source Medicrea). Forecasts for 2020 point to a market worth US\$53 billion with a CAGR of +6.2%. **For its part, Technavio's forecasts show the global spinal implant market reaching US\$14.6 billion by 2019, posting a CAGR of +5.5% over the 2015-19 period.** Inside this market, the Americas is the largest region (US\$10.6 billion estimated by 2019) but also concentrates the most competitors.

Breakdown of the global spinal IBD market in 2015 (left) and outlook for the global spinal implant market through to 2019 – in US\$bn (right)



sources : company, Technavio 2015

The global inter body device (IBD) segment has gradually established itself as a high technology industry, investing in product innovation (notably biomaterials) and the development of surgical procedures which are less invasive for the patient and have fewer constraints for the medical practitioner. It is de facto an industry with high barriers to entry given the weight of regulation and the required level of effectiveness for the products on the market.

Long-term growth drivers

Directly affected by the major demographic and economic trends, the growth forecasts for the global IBD market point to a promising outlook.

▪ **Obesity**

In 2014, according to the WHO, overweight issues concerned nearly 1.9 billion individuals aged over 18 years, of whom 600 million were obese. By 2030, this figure could reach 3.3 billion people, i.e. approaching 40% of the world-wide population. With 38% of the adult population being overweight in 2014, the United States is the number one market in the world for spinal surgery. In France, 6.5 million people are deemed to be obese (i.e. 14.5% of the adult population). Since it increases the pressure on weight-bearing joints, obesity is one of the main causes of degeneration of the lumbar discs or degenerative disc disease. Based on research published in the American College of Rheumatology review in 2012, 73% of subjects with a high body mass index (BMI) presented with disc degeneration, whose severity followed the same trend as the BMI.

▪ **Ageing population**

Based on WHO estimates, over the 2015-50 period, the percentage of the world population aged over 60 years should double from 11% to 22%, i.e. approaching two billion individuals in 2050. Over the same period, the number of people aged over 80 years could be multiplied by four to 430 million by 2050, of whom more than one third living in China. This trend, coupled with a fall in the fertility rate, is going to accentuate the ageing phenomenon and drive the proliferation of specific disorders like hearing problems and cataracts, but also degenerative and post-traumatic pathologies of the spine, which is Medicrea's core business.

▪ **Improved access to health care in the emerging countries**

According to Boston Consulting Group, the emergence then consolidation of a middle class in the developing countries, the effects of urbanisation (sedentary lifestyles and agro-industrial food) and an ageing population have accelerated the growth of the health care offer and improved its accessibility. Over the 1995-2012 period, at global level, annual spending on health care thus increased by an average of 7.4%. By 2022, 50% of the latter could come from developing countries. Having been voted through in numerous countries, universal health care systems are progressively being put in place within the OECD. Even in the United States, the uninsured proportion of the overall population is beginning to decline, thanks to the application of the Affordable Care Act. Health spending has thus risen to US\$8,713 per head in the US, i.e. approaching 16.4% of US GDP. Furthermore, the US health system does not suffer from the same regulatory tariff constraints on the part of governments, enabling companies in the sector to generate comfortable margins.

▪ Impact of innovation

Under the influence of digital technologies, medicine has begun an in-depth transformation with e-health and the promotion of a dual rational of health care personalisation and prevention. The new possibilities offered by bio and nanotechnologies, 3D printing and cellular therapies are driving investment in this market. At technical level, research is currently focusing on the development of less invasive surgical methods, diagnostics based on genetics and more personalised health products.

At the point of convergence of all these trends, the US market presents a solid growth outlook for MedTechs specialised in pathologies linked to obesity, provided that the latter propose a visible and innovative offer.

A concentrated market but one that is receptive to innovative players

In that the presence of a few major players makes it highly consolidated, the orthopedic spinal implant market remains open to innovative products. With a 29% market share and sales of US\$3 billion generated in the vertebral column segment alone, **Medtronic** is the number one player followed by **DePuy-Synthes** (20% market share and sales of US\$2 billion), **Nuvasive** (8% market share and sales of US\$811 million), **Stryker** (7% market share and sales of US\$740 million) and **Globus Medical** (5% market share and sales of US\$545 million). **These five companies alone account for nearly 70% of the market.**

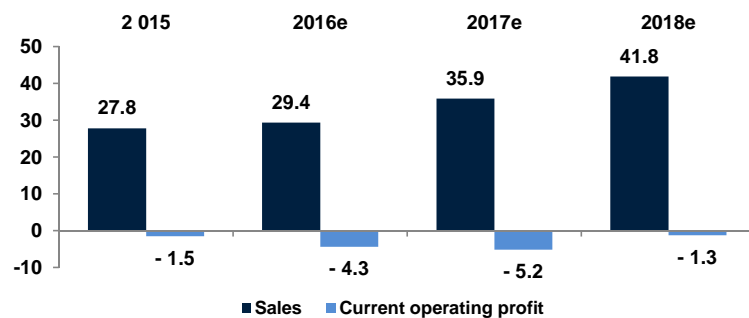
However, not all of them are direct competitors to Medicrea, particularly in thoracolumbar surgery. Only Nuvasive, Globus Medical and **K2M** represent a threat in that they provide similar services, and, in particular, Nuvasive which is planning to launch a customised offer.

Generally speaking, the competition between the different players is intense, particularly in the US market. Similarly, the presence of solidly-positioned historic players makes life difficult for new entrants to the traditional spinal surgery segments. However, innovation can help create new markets by opening up opportunities in under-exploited segments like degenerative disorders, non-fusion products and, of course, the development of customised. Similarly, the US market remains very receptive to technological developments enabling a reduction in the legal and financial risks in the event of revision surgery. **By virtue of its size, innovative nature and significant presence in the US market, Medicrea could thus be a target of choice for the largest players in that it offers a short cut in terms of R&D.**

Strategic and financial outlook

Thanks to the arrival of US investors in its share capital, raising €20 million in August 2016, Medicrea will be able to accelerate its market penetration strategy in the United States. As a result, the coming financial years should benefit from the ramp-up of the customised UNiD® Rods, the reinforcement of the sales force and ongoing investment in innovation. Over the 2016-18e period, we expect a sales CAGR of +12.5%. Furthermore, benefiting from a favourable geographical mix and despite an increase in fixed costs in line with business growth, losses are expected to decline by 2018e. After the publication of +5.8% sales growth in 2016 to €29.4 million, we nonetheless expect higher losses in 2016 (-€4.3 billion vs. -€1.5 million in 2015) given the investment realised to support growth.

Sales and current operating income forecasts in 2016-18e



sources : company, EuroLand Corporate

An acceleration in the expected growth

The US locomotive

With sales of €16.4 million (59% of total sales) in 2015 and a CAGR of +17.3% over the 2012-15 period, the US market constitutes the main growth driver and the number one market for the Group. Over the 2016-18e period, we expect a sales CAGR of +18.9%. This growth will mainly be underpinned by the reinforcement of the sales force in the region during 2016, increasing the number of staff from 13 to 25. Recruitment will subsequently remain high to support the growth. We expect the annual recruitment of some 20 additional people.

Similarly, the arrival of Richard Kienzle*, a founder member of Globus Medical (direct competitor), as a Board member and Chief Commercial & Business Development Officer constitutes a strong signal and will enable Medicrea to benefit from his professional network to gain additional market share.

* He also participated in the recent €5 million capital increase

In view of this recruitment, we are confident on the accelerated deployment of UNiD® in the US market, a country where the Group has significant leverage in terms of long-term pricing. Lastly, the marketing of a 'tulip' screw (expected during the 2017 Q1) and the approval of customised titanium cages (3D printing), constitute significant drivers to growth.

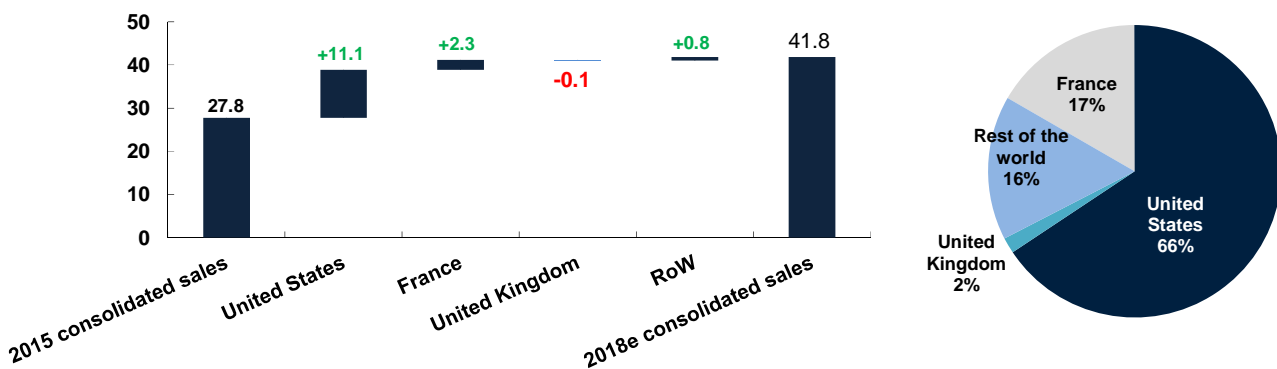
France in support

As the Group's historical market generating 2015 sales of €4.7 million (17% of sales), France has seen strong growth in the past two years (+17.8% in 2014 and +21.7% in 2015). Over the 2016-18^e period, we expect a sales CAGR of +14.0%. While the orthopedics market in the country was down (-5% to -6% according to the company) due to increased pressure on prices, this robust performance is explained, primarily, by the ramp-up of UNiD® which is encountering growing success.

Uneven trends internationally

Despite substantial disparities between the different regions, the Rest of the World zone is expected to see growth in the coming few financial years (CAGR of +4.3% between 2016-18^e). In the United Kingdom (3.0% of 2015 sales), after two years of sharp decline, we expect a stabilisation in activity over the period whereas Brazil should again experience some difficulties. Note, also, that the opening of new subsidiaries in countries with significant potential cannot be ruled out and could feed growth in the zone.

2016e to 2018e, sales contribution (in €m) and breakdown by region through to 2018e

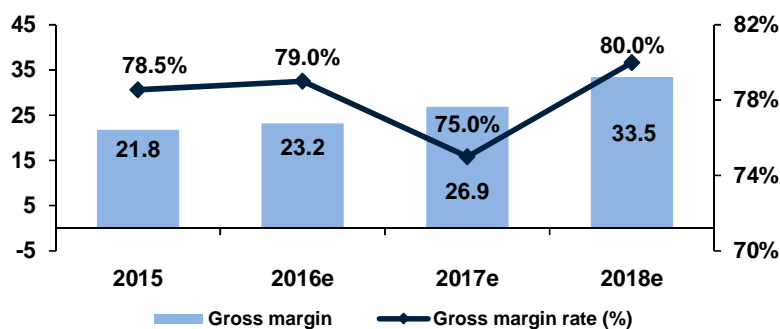


sources :company, Euroland Corporate

A geographical mix favourable to the margin

In parallel with strong growth, **Medicrea will benefit from an improvement in its gross margin given:** 1/ a favourable geographical mix (2015 gross margin of 89.7% in the United States vs France at 70.9%), 2/ the optimisation of its manufacturing facility, 3/ the achievement of economies of scale, and 4/ a reduction in indirect sales. While the ramp-up of the new manufacturing site is expected to negatively impact the gross margin in 2017 (75.0%e) due to increased recourse to sub-contracting, we expect it to rebound to 80.0% as of 2018, a level already seen in 2013 and 2014. In time, we see the Group approaching the 85.0% mark.

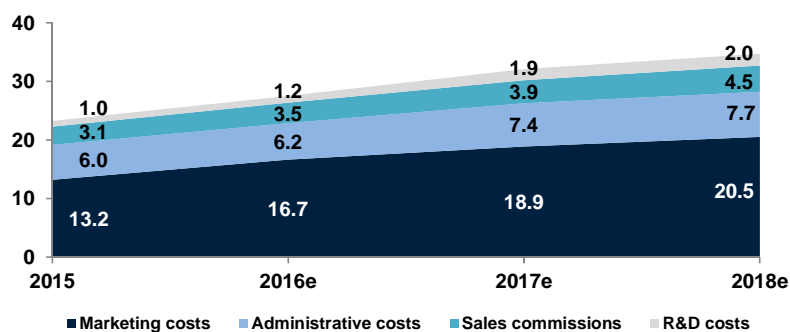
2016-18e gross margin forecast



sources : company, Euroland Corporate

To accompany its growth, Medicrea plans to significantly step up its marketing capacity, particularly in the United States. Marketing costs will be the subject of substantial investment over the next two financial years, before slowing in 2018 (CAGR of +15.8%e). Similarly, administrative costs will increase along with, albeit to a lesser proportion, business growth (CAGR +12.8%e). Lastly, in order to capitalise on UNiD® patient data, the Group plans to accelerate its level of R&D expenditure (an estimated €1.9 million in 2017 vs €1.2 million on average for years).

Trend in the different cost items over 2015-18e



sources: company, Euroland Corporate

A potential balance sheet reinforcement by 2018

Last August, Medicrea realised a €20.0 million fundraising, split between a €5 million capital increase and a convertible bond issue (maturing in 2020; conversion price €6.25). The latter will enable the company to finance the very substantial increase in its activity over the next three financial years.

Despite the expected generation of positive cash flow from operations as of 2018, we expect the company to again call on the market by 2020 to meet its obligations (≈€11 million of redemptions and capex of €17 million through b 2020). We estimate this funding requirement at €5 million in the event of convertible bond conversion and €20 million on non-conversion, which could be financed by debt or equity.

Forecast income statement

In €m	2015	2016e	2017e	2018e
Sales	27,8	29,4	35,9	41,8
<i>change (%)</i>	14,7%	5,8%	22,1%	16,6%
Gross margin	21,8	23,2	26,9	33,5
<i>Gross margin rate</i>	78,5%	79,0%	75,0%	80,0%
R&D costs	1,0	1,2	1,9	2,0
Marketing costs	13,2	16,7	18,9	20,5
Sales commissions	3,1	3,5	3,9	4,5
Administrative costs	6,0	6,2	7,4	7,7
Other (including amortisation)	3,4	3,8	4,4	4,7
Current operating result	-1,5	-4,3	-5,2	-1,3
<i>Current operating margin</i>	-5,6%	-14,7%	-14,6%	-3,0%
Financial result	-0,2	-1,9	-1,8	-1,7
Taxes	0,3	0,0	0,0	0,0
Net result, Group share	-1,5	-7,6	-7,4	-3,4
<i>Net margin</i>	-5,5%	-26,0%	-20,7%	-8,0%

Significant increase in financial costs as of 2016 linked to the convertible bonds

sources : company, Euroland Corporate

Income statement (€m)	2015	2016e	2017e	2018e
Sales	27,8	29,4	35,9	41,8
EBITDA	2,0	-0,5	-0,9	3,4
Current operating result	-1,5	-4,3	-5,2	-1,3
Operating result	-1,6	-5,7	-5,6	-1,6
Financial result	-0,2	-1,9	-1,8	-1,7
Taxes	0,3	0,0	0,0	0,0
Affiliates	0,0	0,0	0,0	0,0
Minorities	0,0	0,0	0,0	0,0
Net result, Group share	-1,5	-7,6	-7,4	-3,4
Balance sheet (€m)	2015	2016e	2017e	2018e
Long-term assets	16,3	15,7	14,8	13,7
<i>o/w goodwill</i>	2,6	2,6	2,6	2,6
WCR	8,5	8,3	9,4	10,2
Cash + short-term investments	2,2	12,5	2,0	0,7
Shareholders' equity	15,2	12,6	5,2	6,8
Borrowings and financial debt	10,4	22,6	19,8	16,6
Total balance sheet	33,1	42,8	34,0	33,7
Cash flow statement (€m)	2015	2016e	2017e	2018e
Cash flow from operations	1,2	-3,8	-3,1	1,3
Change in WCR	-1,0	0,1	-1,1	-0,8
Cash flow from operating activities	0,1	-3,7	-4,1	0,5
Operational investment, net	-5,9	-3,2	-3,5	-3,6
Financial investments, net	-0,1	0,0	0,0	0,0
Cash flow from investment activities, net	-5,9	-3,2	-3,5	-3,6
Capital increase	3,6	5,0	0,0	5,0
Change in borrowings	3,6	12,2	-2,8	-3,2
Dividends paid	0,0	0,0	0,0	0,0
Other	-0,3	0,0	0,0	0,0
Cash flow from financing activities, net	6,9	17,2	-2,8	1,8
Change in net financial debt	1,2	10,3	-10,4	-1,3
Ratios (%)	2015	2016e	2017e	2018e
Sales growth	14,7%	5,8%	22,1%	16,6%
EBITDA margin	7,2%	-1,7%	-2,4%	8,1%
Current operating margin	-5,7%	-19,4%	-15,6%	-3,9%
Operating margin	-5,7%	-19,4%	-15,6%	-3,9%
Net margin	-5,5%	-26,0%	-20,7%	-8,0%
Operational investment, net/sales	21,2%	11,0%	9,8%	8,6%
WCR/Sales	30,5%	28,4%	26,2%	24,4%
ROCE	-4,2%	-12,0%	-14,4%	-3,5%
ROCE excl. GW	-4,7%	-13,5%	-16,2%	-4,0%
ROE	-9,9%	-60,4%	-142,7%	-49,0%
Payout	0%	0%	0%	0%
Dividend yield	0%	0%	0%	0%
Debt ratios	2015	2016e	2017e	2018e
Gearing (%)	54%	81%	342%	232%
Net debt/EBITDA	4,2	-20,5	-20,6	4,7
EBITDA/financial costs	8,7	0,3	0,5	2,0
Valuation	2015	2016e	2017e	2018e
Number of shares (in millions)	9,0	10,0	10,0	10,0
Average number of shares (in millions)	8,7	9,5	10,0	10,0
Share price (annual average in euros)	7,8	5,5	5,5	5,5
(1) Average market capitalisation	67,8	52,0	55,2	55,2
(2) Net debt (+)/net cash (-)	8,3	10,2	17,8	15,9
(3) Carrying value of minority interests	0,0	0,0	0,0	0,0
(4) Fair value of financial assets	0,0	0,0	0,0	0,0
Enterprise value = (1)+(2)+(3)-(4)	76,0	62,2	73,0	71,1
PER	ns	ns	ns	ns
EV/EBITDA	39,1	ns	ns	21,1
EV/Current operating result	ns	ns	ns	ns
EV/Sales	2,8	2,2	2,0	1,7
P/B	4,5	4,4	10,6	8,1
Per share data (€)	2015	2016e	2017e	2018e
EPS	-0,17	-0,76	-0,74	-0,33
Book value/share	1,7	1,3	0,5	0,7
Dividend/share	0,00	0,00	0,00	0,00

IDENTIFICATION OF POTENTIAL CONFLICTS OF INTEREST

Corporate Finance	Analyst's personal interest	Ownership of assets in the issuer	Prior communication to the issuer	Liquidity agreement	Eurovalue* contract
No	No	No	Yes	No	Yes

* Stock market coordination comprising regular financial research with or without liquidity

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