

## LDR Holding

Price USD20.80

## Feedback from roadshow with CEO

Fair Value USD41 vs. USD53 (+97%)

BUY

We hosted LDR's roadshow in Paris yesterday with CEO, Christophe Lavigne and reiterate our positive stance on the company's growth prospect in the cervical spine market. Recruitment of direct sales force is on-track and we see an increased numbers of insurer adding Mobi-C to their lists following the publication of the 5-years data in a peer reviewed journal this year. FV down from USD53 to USD41 as we add a multiple-based FV in our methodology.

## ANALYSIS

- Management is on track to recruit 50 to 70 direct sales reps, which on top of its network of 220 distributors, should provide LDR access to the remaining 50% of US spine surgeons. We would point out that most of the company's distributors are exclusive. Mobi-C continues to be a door opener and while penetration has grown nicely since the launch in 2014, we are not ruling out the prospect of hospitals possibly increasing procedures with LDR's offering in 2016 and 2017. Indeed, vendors need to be certified to sell in hospitals and this is a long process to go through i.e. ~6/9months. We were pleased to hear that the company is able to maintain its premium.
- Several insurers added Mobi-C one level in their listing (159m lives) in Q4 2015 (see below). Note that the label has been updated to include previously communicated one-level 5-year data. As such, the next catalyst should be publication of this data by a peer reviewed journal, expected in 2016 and which is a pre-requisite for numerous insurers to review the device and potentially include it in their listing. We believe that coverage upgrade to the two-level indication might be a more rapid process.

Bloomberg	LDRH US
Reuters	LDRH.OQ
12-month High / Low (USD)	45.7 / 19.8
Market Cap (USD)	604
Ev (BG Estimates) (USD)	487
Avg. 6m daily volume (000)	381.7
3y EPS CAGR	-37.5%

	1 M	3 M	6 M	31/12/14
Absolute perf.	-7.3%	-18.1%	-51.7%	-36.5%
Healthcare	-0.9%	0.3%	-12.8%	7.3%
DJ Stoxx 600	-2.9%	-4.6%	-14.8%	-0.9%

YEnd Dec. (USDm)	2014	2015e	2016e	2017e
Sales	141.3	160.4	188.7	224.8
% change		13.5%	17.7%	19.1%
EBITDA	-6.0	-4.8	-8.5	5.6
EBIT	-10.7	-9.6	-14.2	-1.1
% change		10.2%	-47.1%	92.1%
Net income	-11.0	-14.7	-16.7	-3.1
% change		-34.3%	-13.2%	81.7%

	2014	2015e	2016e	2017e
Operating margin	-7.6	-6.0	-7.5	-0.5
Net margin	-7.8	-9.2	-8.8	-1.4
ROE	-10.2	-9.1	-12.0	-2.2
ROCE	-9.9	-9.1	-11.6	-2.3
Gearing	7.7	3.3	3.8	3.8

(USD)	2014	2015e	2016e	2017e
EPS	-0.43	-0.51	-0.58	-0.11
% change	-	-17.5%	-13.2%	81.7%
P/E	NS	NS	NS	NS
FCF yield (%)	NM	NM	NM	NM
Dividends (USD)	0.00	0.00	0.00	1.00
Div yield (%)	NM	NM	NM	4.8%
EV/Sales	3.8x	3.0x	2.7x	2.4x
EV/EBITDA	NS	NS	NS	94.1x
EV/EBIT	NS	NS	NS	NS

## Positive One-Level Coverage

- More than 159m lives covered by private payers

- BCBS Federal Employee Program (Nov 2015)
- BCBS Nebraska (Oct 2015)
- First Choice (Oct 2015)
- BCBS of Tennessee (Sep 2015)
- BCBS Premiera (Sep 2015)
- Blue Shield California (Sep 2015)
- BCBS Arizona (Sep 2015)
- BCBS NE NY/Western NY (Sep 2015)
- BCBS of Arkansas (Aug 2015)
- BCBS Kansas/Kansas City (Aug 2015)
- Harvard Pilgrim (Jul 2015)
- Tufts Health Plan (Oct 2014)
- Geisinger Health Plan (Oct 2014)
- BCBS Alabama (Feb 2014)
- Cigna (Dec 2012)
- TriCare (Dec 2012)
- United (October 2011)
- Aetna
- Other BCBS (BCBS Anthem, HCSC, Highmark, Horizon, BCBS Florida, BCBS Louisiana)
- Work Comp / Liability
- More than 50 others

## Positive Two-Level Coverage

- More than 20M lives covered by private payers

- QualChoice (Oct 2015)
- PEHP (Aug 2015)
- Selecthealth (Mar 2015)
- PreferredOne (Feb 2015)
- Geisinger Health Plan (Oct 2014)
- Priority Health (Aug 2014)
- United Healthcare (May 2014)
- BCBS Louisiana (Dec 2013)
- Health Partners (Dec 2013)
- Other regional
- Policy language can be very specific to approved indications (United Healthcare)
  - "not all cervical artificial discs have FDA labeling for contiguous two level degenerative disc disease. Only cervical artificial discs FDA labeled for contiguous two level disease are proven and medically necessary for this indication"
- Two-Level cases may still be reimbursed prior to formal coverage

- MiVo should have a marginal effect in 2016, with a slow ramp up in 2017 onwards in our view. More details should be given at the Analysts' Meeting. Medtronic should reach the market within the next 12 months, and might help to open the market further. Note that the company has been lobbying in favour of ACDF.

## VALUATION

- We have rolled our DCF and SotP over to 2016 and slightly increased our S&M expenses for 2016 thereby decreasing our FV by USD4 from USD53 to USD49. The current volatile environment with a derating of the US Spine sector over the past 6 months despite no negative newsflow for LDR, raises the question of what valuation methodology to use for LDR. As such, we have decided to include a multiple-based FV which points to USD24 (x3.7 2016e sales). Our new equally-weighted FV derived from our DCF, SotP and Multiples-based valuations points to USD41. We reiterate our BUY rating.

## NEXT CATALYSTS

- Feb. 17th: Q4 and FY15 results followed by Analysts' Meeting in NYC on Feb. 23rd.

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