

18th February 2016

Healthcare

LDR Holding

Price USD18.96

Q4 2015 rebound and reassuring 2016 guidance ahead of estimates! BUY**Fair Value USD41 (+116%)****BUY**

Bloomberg	LDRH.US
Reuters	LDRH.OQ
12-month High / Low (USD)	45.7 / 16.8
Market Cap (USDm)	551
Ev (BG Estimates) (USDm)	434
Avg. 6m daily volume (000)	438.6
3y EPS CAGR	-37.5%

LDR reported Q4 and FY2015 numbers yesterday evening. Following a slight 1% miss to consensus estimates in Q3, due to seasonality, alongside the derating of the spine sector, leading to an unwarranted drop in the share price in our view (-54.7% vs -10.95% for the NASDAQ), we are pleased to see a rebound in Q4 sales with LDR reporting strong FY2015 results and reassuring FY2016 guidance, both ahead of consensus estimates (by 1.5% and 1.3% respectively).

LDR (USDm)	FY2014	FY2015	y/y	Cs	Delta	FY2016 guidance	FY2016 consensus
Revenue	141.3	164.5	16.4%	162.0	1.5%	187.5-189.5*	186.0

Source : Company Data; Bloomberg consensus.

*Implying 14% to 15.52% reported growth (inc. 1pp negative FX impact)

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.5%	-19.7%	-54.7%	-24.5%
Healthcare	-3.3%	-13.1%	-16.3%	-12.0%
DJ Stoxx 600	-0.3%	-13.5%	-15.1%	-10.1%

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	5.3%
EV/Sales	3.4x	2.7x	2.4x	2.1x
EV/EBITDA	NS	NS	NS	84.6x
EV/EBIT	NS	NS	NS	NS

ANALYSIS

- LDR reported Q4 2015 sales increasing by 12.7% on a reported basis (16.2%cc), standing at USD44.5m, 5% ahead of consensus estimates and highlighting a significant rebound following the shy performance in Q3 2015 (USD39.3m, 9.5% reported vs Q3 2014) due to seasonality. In Q4, sales growth was driven by a strong performance from exclusive technology product sales which grew by 15.9% (18.3% cc), amounting to 93% of sales at USD41.6m. Note that exclusive cervical product sales grew 26% (28.6%cc) to USD32.1m, boosted by Mobi-C sales (80% growth rate) and the continuous cross-selling of ROI-C. For FY2015, sales came in 1.5% ahead of consensus, growing at 16.4% (21.3%cc) to USD164.5m. Exclusive technology products grew 21.9% (25.4%cc) to USD152.4m. From a geographical standpoint, LDR derived 81% of its FY 2015's sales from the US. Growth in the region was strong at 22.1% (USD133.8m).
- Turning to profitability, we are once again pleased to see LDR's gross margin north of 80%, the latter being improved by 70bp from 82.7% in 2014 to 83.4%. Net loss stood at USD15.9m or USD0.57 per share vs. USD0.43 last year, impacted by the company's investment strategy to expand its sales force. S&M expenses in 2016 should be in line with 2015's level. The expansion of the sales force and product launches should offer leverage in 2017.
- For 2016, management expects sales to be within the USD187.5-189.5m range on a reported basis implying 14% to 15.2% growth for the year. FX should negatively impact sales by 1pp (15%-16.2% organic growth range in 2016). We would expect the performance to be somewhat back-end loaded in 2016 with productivity from 68 recently hired direct sales persons to positively impact H2 sales (9 months training, the company's initial expectations were to hire 50-70 reps). We do not rule out that the 2016 performance might be lifted by the five-year cost utility analysis publication in a peer-reviewed journal, speeding up recognition and inclusions of the device in payers' lists (Aetna and Cigna reviews in July and Dec respectively). While we believe that it is now an execution story on the cervical spine market for LDR, the lumbar market (+1.5% in FY2015 for exclusive lumbar products, USD574k) should be the next challenge to be addressed by the company. The roll-out of first products derived from the company's Minimal Implant Volume technology will be in 2016 with first contribution to sales in 2017e.

VALUATION

- We reiterate our BUY rating and USD41 fair value. No change to our estimates ahead of the Analyst Day scheduled on Feb 24th.
- We would expect strong FY2015 results and reassuring FY2016 guidance to trigger a share price rerating.

NEXT CATALYSTS

- Feb. 23rd: Analyst Day (NYC)

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