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25th February 2016

## BG's Wake Up Call



	Last close	Daily chg (%)	Chg YTD (%)
<b>Indices</b>			
Dow Jones	16484.99	+0.32%	-5.39%
S&P 500	1929.8	+0.44%	-5.58%
Nasdaq	4542.61	+0.87%	-9.28%
Nikkei	15915.79	-0.85%	-16.38%
Stoxx 600	320.226	-2.31%	-12.46%
CAC 40	4155.34	-1.96%	-10.39%
<b>Oil /Gold</b>			
Crude WTI	30.48	+1.74%	-18.06%
Gold (once)	1248.4	+1.89%	+17.51%
<b>Currencies/Rates</b>			
EUR/USD	1.1022	-0.02%	+1.46%
EUR/CHF	1.08845	-0.34%	+0.10%
German 10 years	0.148	-19.49%	-76.66%
French 10 years	0.516	-4.40%	-47.42%
Euribor	-	+-%	+-%

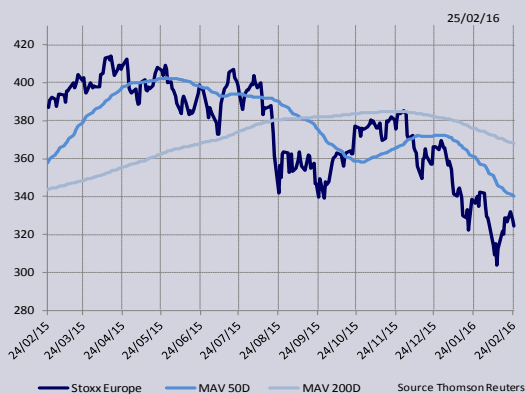
### Upcoming BG events :

Date	Event
2nd-Mar	ALBIOMA (BG Paris Lunch CEO)
10th-Mar/ 11th-Mar	BG TMT Conference
15th-Mar	ABLYNX (BG Paris roadshow with CEO)
18th-Mar	CNP (BG Paris roadshow with CEO, CFO)
23rd-Mar	EIFFAGE (BG Luxembourg with IR)
8th-Apr	VINCI (BGLuxembourg roadshow with CFO)

### Recent reports :

Date	Report Title
19th-Feb	CASINO With hindsight: a real Catch-22!
17th-Feb	LAFARGEHOLCIM Everything can't be that bad.
11th-Feb	Pennon : At any price?
2nd-Feb	French toll roads: safe harbour in difficult times
1st-Feb	An aisle-end stock, but not a bargain
27th-Jan	Worldpay : An aisle-end stock, but not a bargain

List of our Reco & Fair Value : Please click here to download



### Afternoon call:

#### LDR HOLDING

**BUY, Fair Value USD41 (+98%)**

#### Long-term vision and ambition brings confidence

We attended LDR's investor day on Wednesday 23rd February and returned confident in the company's long term growth prospects with management having shared its plan to further penetrate the cervical market as well as details on minimum implant volume surgery (MIVO). For the first time, management communicated on Mobi-C sales in USD. A surgeon's testimony highlighted the advantages of Mobi-C vs. competitor's products as well as interest in MIVO products, which LDR is to roll-out in the US.

Healthcare

**LDR Holding**

Price USD20.71

**Long-term vision and ambition brings confidence**

Fair Value USD41 (+98%)

**BUY**

Bloomberg	LDRH.US
Reuters	LDRH.OQ
12-month High / Low (USD)	45.7 / 16.8
Market Cap (USDm)	605
Ev (BG Estimates) (USDm)	488
Avg. 6m daily volume (000)	449.2
3y EPS CAGR	-37.5%

We attended LDR's investor day on Wednesday 23rd February and returned confident in the company's long term growth prospects with management having shared its plan to further penetrate the cervical market as well as details on minimum implant volume surgery (MIVO). For the first time, management communicated on Mobi-C sales in USD. A surgeon's testimony highlighted the advantages of Mobi-C vs. competitor's products as well as interest in MIVO products, which LDR is to roll-out in the US.

**ANALYSIS**

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.5%	-20.0%	-45.8%	-17.5%
Healthcare	-7.4%	-12.7%	-6.9%	-12.8%
DJ Stoxx 600	-5.4%	-14.8%	-6.4%	-12.5%

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

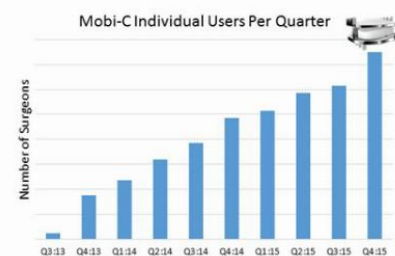
(USD)	2014	2015e	2016e	2017e
EPS	-0.43	-0.51	-0.58	-0.11
% change		-17.5%	-13.2%	81.7%
P/E	NS	NS	NS	NS
FCF yield (%)	NM	NM	NM	NM
Dividends (USD)	0.00	0.00	0.00	1.00
Div yield (%)	NM	NM	NM	4.8%
EV/Sales	3.8x	3.0x	2.7x	2.4x
EV/EBITDA	NS	NS	NS	94.3x
EV/EBIT	NS	NS	NS	NS

- For the first time, management provided values for Mobi-C sales. These grew 62.7% to USD61.2m, USD51.7 5 (84%) of which recognised in the US and growing steadily at 79.2%. Our estimates for the year stood at USD55.1m. We expect the trend to be sustained in 2016 (though somewhat back-end loaded in H2 2016) and have modelled USD79m in sales. As such, we believe that 2016 revenue guidance, which implies a further USD23-25m in sales, could only be filled by growth in Mobi-C sales.

- The sharp increase in the number of surgeons using Mobi-C per quarter underlined the fact that LDR's message is finding more echo and that surgeons trained in recent years now tend to favour cervical disc replacement procedures for their patients (learning curve). The bulk in Q4 relative to Q3 might be the first result of an increase in payor coverage (see our feedback from roadshow with CEO, Christophe Lavigne, on January 15<sup>th</sup> 2016).

- Few headwinds were clearly identified by management.** Converting surgeons to new procedures and technologies should be progressively addressed as 1/ the company's commercial presence is expected to broaden and 2/ the scientific community is increasingly pointing towards the benefits of CDR (Cervical Disc Replacement) over ACDF (Anterior Cervical Disectomy and Fusion). Surgeons' fees that remain higher for two-level ACDF procedures vs. two-level CDR and that could make some of them reluctant to perform CDR should fade in the short term with the inclusion of Mobi-C in the new payers list throughout 2016 and onwards as well as growing patient awareness.

- Growth reservoir not only beyond current market share.** 2,200 US spine surgeons have been trained on Mobi-C so far. While LDR recruited 68 direct sales representatives in 2015 to increase the company's footprint beyond its current 36% market share, the group should remain committed to its hybrid sales model. Management was pleased with the surgeon retention rate and underlined that the presence of direct reps should not only help boost sales by increasing the company's reach but also re-boosting the user's rate. Indeed, some surgeons were trained a few years ago when no reimbursement framework was in place for CDR and might need to be re-trained or to have the change in the reimbursement landscape explained so that they could potentially become more intensive Mobi-C users. Note that most surgeons are trained on both Mobi-C and Roi-C with the latter being introduced as a back-up fusion alternative that helps the company to cross sell its products.



- Management gave an update on the number of covered lives for Mobi-C. **Since the beginning of January, 20m and 15m additional lives were covered by payers for one and two-level indications** respectively. This brings the total number of lives covered for one and two-level indications to 179m and 35m respectively vs. 159m and 20m two months ago. The recent inclusion of one and two-level cervical arthroplasty by Medi-Cal (12m lives in California) should send a positive signal to insurers in our view. We believe that the publication of 5-year cost-utility analysis in a peer-reviewed journal would accelerate the conversion. Seven-year data expected to be released this year should be a major clinical milestone as it represents the end of the FDA's follow-up requirement and although management was unable to share the data, we remain confident in the outcome. Note that five-year data was highly consistent with results after two years.

**More than 179M lives covered by payers**

<b>One-Level Coverage</b>	• Univera Healthcare (Feb 2016)	• BCBS Tennessee (Sep 2015)	• BCBS Alabama (Feb 2014)
	• Excellus BCBS (Feb 2016)	• Premera BC (Sep 2015)	• Cigna (Dec 2012)
	• Capital BC (Dec 2015)	• Blue Shield California (Sep 2015)	• TriCare (Dec 2012)
	• BCBS Massachusetts (Dec 2015)	• BCBS Arizona (Sep 2015)	• United (October 2011)
	• BCBS NE Pennsylvania (Dec 2015)	• BCBS NE NY/Western NY (Sep 2015)	• Aetna
	• BCBS North Carolina (Dec 2015)	• BCBS Arkansas (Aug 2015)	• Other BCBS (HCSC, Highmark, Horizon, BCBS Florida, BCBS Louisiana)
	• Medi-Cal (Dec 2015)	• BCBS Kansas/Kansas City (Aug 2015)	• Work Comp / Liability
	• BCBS Federal Employee Program (Nov 2015)	• Harvard Pilgrim (Jul 2015)	• More than 60 others
	• BCBS Nebraska (Oct 2015)	• Tufts Health Plan (Oct 2014)	
	• First Choice (Oct 2015)	• Geisinger Health Plan (Oct 2014)	

**More than 35M lives covered by payers**

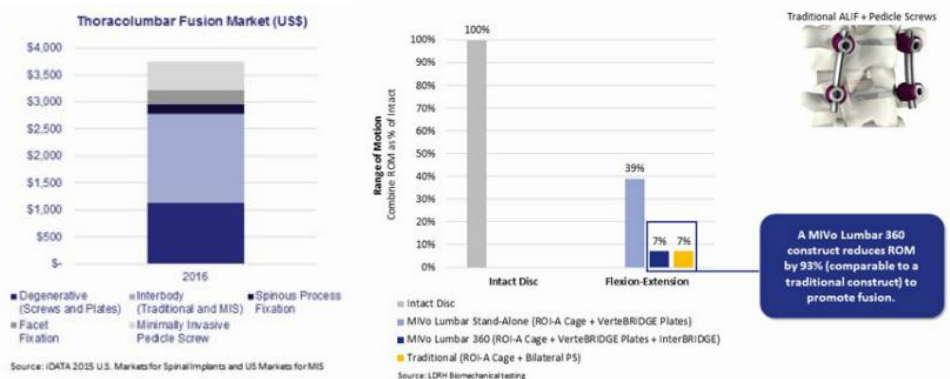
<b>Two-Level Coverage</b>	• HMSA (BCBS Hawaii) (Dec 2015)	• Priority Health (Aug 2014)
	• Medi-Cal (Dec 2015)	• United Healthcare (May 2014)
	• Medica (Nov 2015)	• BCBS Louisiana (Dec 2013)
	• Qual Choice (Oct 2015)	• Health Partners (Dec 2013)
	• PEHP Utah (Aug 2015)	
	• SelectHealth (Mar 2015)	
	• Preferred One (Feb 2015)	
	• Geisinger Health Plan (Oct 2014)	

*Two-Level cases may still be reimbursed prior to formal coverage*

- Upcoming competition not viewed as a threat!** Medtronic Prestige LP cervical disc should be made available for two-level in 2016. LDR's management is confident that with Medtronic pushing in the same direction, this should significantly grow the market. Management seems confident in its competitive advantage. Dr. Armen Khachatryan, a surgeon in Utah, gave testimony highlighting the following features of Medtronic' Prestige, Prestige LP and LDR's Mobi-C discs respectively. The main message was that convenience is key for the physician, while long term outcome is considered by payors. Bear in mind also that 1/ MDT's Prestige LP is a metal-on-metal implant. Metal on metal has been found to have long term side effects (hip). 2/ five year data required by payers before list inclusion should not be made available before 2018 at the earliest. Finally, the company does not expect any further competition as IDE procedures are necessary and should be made public, thereby causing a high barrier to entry.

Disc	MOBI-C / LDR	PRESTIGE LP / MDT	PRESTIGE / MDT
"Class"	unconstrained	semi-constrained	constrained
Adaptability	adaptability to the patient's anatomy	-->	Patient adapt to the disc
Implantation	No need for much fixation	Cuts in the vertebrae to implant the disc	

- MIVO is an interesting opportunity for LDR and should be seen as a doorway into the USD3.7bn thoracolumbar market.** The company demonstrated that biomechanical stability could be achieved while reducing the volume of spinal hardware by up to 60%, although this has not been subject to scientific publication yet. Potential communication by year-end in Europe. We do not rule out that patients' outcome might be improved as ligaments and tissues are protected. LDR's goal with this technology platform is to relegate pedicle screw to second intention surgeries (60% of lumbar fusions fail).



- Investments necessary not to starve the topline.** Management did not emphasise profitability as investments are needed and could be supported by 115m in cash as well as high gross margin (north of 80%). As mentioned in our previous note on LDR (please see here), back-end loaded growth should be expected in 2016. In the first half we would expect high single-digit growth with significant investments to be made (similar to the Q4 2015 level) in order not to starve the topline, mainly into S&M. During the second-half, we would expect high double-digit growth fuelled by 1/ a ramp-up in sales productivity 2/ inclusion in payers lists.

**VALUATION**

- We reiterate our USD41 fair value and BUY rating.

**NEXT CATALYSTS**

- 5th April: Q1 results
- 2016: Seven-year data publication and expected inclusion of two level in payers lists all along the year

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## BG's Wake Up Call

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### Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

### Distribution of stock ratings

BUY ratings 62.2%                      NEUTRAL ratings 28.9%                      SELL ratings 8.9%

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