

11th May 2016

Healthcare

LDR Holding

Price USD24.74

Good sales progression in Q1 despite strong comps

Fair Value USD38 (+54%)

BUY

Bloomberg	LDRH.US
Reuters	LDRH.OQ
12-month High / Low (USD)	45.7 / 16.8
Market Cap (USDm)	723
Ev (BG Estimates) (USDm)	606
Avg. 6m daily volume (000)	405.9
3y EPS CAGR	-37.5%

LDR reported Q1 results yesterday evening with sales in line with consensus standing at USD42.4m, up 8.4% and 9.7% on a constant currency basis. Mobi-C sales grew strongly (+29.7%cc) despite strong comps. Other product range which accounted for 59.3% of total group sales decreased slightly as a result of price erosion and increased focus on Mobi-C sales. FY2016 guidance maintained.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.9%	39.7%	-4.6%	-1.5%
Healthcare	-0.8%	4.7%	-10.6%	-10.9%
DJ Stoxx 600	1.3%	6.7%	-10.6%	-8.1%

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	4.0%
EV/Sales	4.6x	3.8x	3.3x	2.9x
EV/EBITDA	NS	NS	NS	115.3x
EV/EBIT	NS	NS	NS	NS

LDR Holding (USDm)	Q1 2015	Q1 2016	y/y	Q1 2016 CS	Delta	FY 2016	FY 2016 Cs
Revenue	39,1	42,4	8%	42,7	-0,7%	187,5-189,5*	187,5
EBIT	-5,3	-9,5	-280%	-6,5	-31,6%		
EBIT margin %	-13,5%	-22,3%		-15,2%			
Adjusted Net Income	-6,9	-7,6	-210%	-6,7	-12,8%		
Adjusted EPS	-0,12	-0,26	-317%	-0,23	-11,5%		

* or 14-15,2% reported growth of which -1pp of FX impact i.e. 15-16,2% constant currency

Source: Company Data; Bloomberg.

ANALYSIS

- Mobi-C sales continues to progress well growing close to 30% at 29.7% on a constant currency basis (28.8% reported), representing 40.7% of the group sales' at USD17.3m (vs. 34.3% in Q1 2015). The US drove this growth as sales from the latter product range in the country grew 36% in Q1 to USD15.1m. Products from both MIVo technology and the traditional fusion range, which represents 59.3% of LDR's sales decreased 2.5% and 1.1% (reported) respectively, resulting from the increased focus on Mobi-C sales and price erosion. However, we would underline that the company's commitment to bring eight new MIVo products to the market over the next three years should reverse this trend with first positive feedbacks from surgeons from three products that have already been beta launched.
- On the back of four recent publications highlighting the benefits of Mobi-C, we do not expect the pace of Mobi-C growth to decrease this year (exc. seasonality in Q3) as we expect the product to be included in payer's lists. The number of lives covered for the two level indication increased from 35m to 50m while the ones covered for the one level indication remains stable at 179m.
- Profitability remains strong with gross margin maintained north of 80% at 83% but lower than 83.5% last year due to higher inventory reserves. EBIT margin was significantly below consensus (-USD9.5m vs -USD6.5m expected) as the latter did not integrate the continuous investments that need to be made throughout the first half of the year (R&D and sales force), before the effect of the direct sales force that is still growing kicks-in towards H2 2016, further leveraged in 2017 onwards with the launch of eight new products.
- FY2016 guidance is maintained with revenues expected to grow within the 15 to 16.2% range on a constant currency basis, 14% to 15.2 when taking into account a 1pp negative FX effect. During the conference call, management highlighted that no further increase in number of lives covered would be needed to meet annual guidance. Please note that Anthem and BSBC should have their annual review in the summer. With USD103.3m in cash and cash equivalents, LDR remains well funded.

VALUATION

- We reiterate our USD38 Fair Value

NEXT CATALYSTS

- 3rd August: Q2 results
- 2016: publication of seven-year data for Mobi-C. Data to be transmitted to the FDA for review in May 2016.

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