

Quarterly Statement

1st quarter 2019



Selected figures (unaudited)

Sales and result	01/01-03/31/2019	01/01-03/31/2018	Change
Sales (KEUR)	3,501	2,782	+26%
EBITDA (KEUR)	-998	-1,588	+37%
EBIT (KEUR)	-1,569	-1,998	+21%
Net result (KEUR)	-1,350	-2,244	+40%
Cash flow and investments	01/01-03/31/2019	01/01-03/31/2018	Change
Operative cash flow (KEUR)	-468	-1,367	+66%
Investing activities in intangible assets (KEUR)	411	329	+25%
Investing activities in tangible assets (KEUR)	162	155	+5%
Total investing activities (KEUR)	573	484	+19%
Value development	03/31/2019	12/31/2018	Change
Intangible assets (KEUR)	14,803	13,286	+11%
Tangible assets (KEUR)	6,727	6,876	-2%
Working capital (KEUR)	9,638	10,131	-1%
Working capital ratio ¹⁾ (sales)	0,8	0,9	-11%
Non-current assets (KEUR)	23,528	22,493	+5%
Current assets (KEUR)	17,426	19,728	-12%
Capital structure	03/31/2019	12/31/2018	Change
Total assets (KEUR)	40,954	42,221	-3%
Shareholders' equity (KEUR)	33,512	34,919	-4%
Equity ratio (%)	82%	83%	
Share²⁾	01/01-03/31/2019³⁾	01/01-03/31/2018	Change
Total amount of shares 03/31 (million pieces)	28.71	28.64	0%
Closing price 03/31 (EUR/Share)	0,98	1.95	-50%
Market Capitalization 03/31 (million EUR)	28.13	55.86	-50%
Average Price (EUR/Share)	0.95	1.83	-48%
High (EUR/Share)	1.12	2.17	-48%
Low (EUR/Share)	0.75	1.59	-53%
Ø Daily turnover (KEUR)	24.75	37.10	-33%
Employees	03/31/2019	12/31/2018	Change
Employees (Headcount)	141	146	-3%
Employees (FTE)	128	133	-3%

¹⁾ Sales for the last four quarters

²⁾ Closing prices XETRA; data source: Bloomberg

³⁾ Bloomberg adjusted the share price data from 01/01/2019 to 31/03/2019 retrospectively by a subscription right deduction from the recent capital increase with subscription rights

Note: The figures contained in this quarterly statement are unaudited. Technical rounding differences could exist, which have no impact on the entire statement.

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Business Review

Foreword by the Management Board

Ladies and Gentlemen,
 Dear Shareholders,
 Dear Employees and Business Partners,

we have made a successful start to the 2019 financial year with significant sales growth and substantial earnings improvement. Both sales and EBITDA were above our guidance. We have therefore set a solid foundation for the planned dynamic sales growth and earnings improvement for the full year.

With a view to the sales development, all regions contributed with double-digit growth rates to the realised sales increase. In both our home market Germany and in international business, we were able to maintain the momentum of the last financial year and thereby recorded sustainable growth. We were also able to stabilize sales development in North America. Here our measures initiated in the 2018 financial year are starting to have an effect.

Based on the good sales development, we were able to achieve a substantially improved EBITDA in the first quarter. At the same time, we were able to reduce total costs compared to the same quarter in the previous year and have benefited from an increased gross margin.



As part of the further completion of our LOQTEQ® portfolio, in the first quarter we have placed particular focus on polyaxial fixation technology, plating systems for the foot and ankle areas, as well as implants in sterile packaging. Furthermore, the focus remained on adapting processes and documents to new regulatory requirements.

With a view to the targeted market approval of our innovative silver coating technology, we have submitted the application to conduct a human clinical study to the German Federal Institute for Drugs and Medical Devices ("BfArM") at the end of 2018 and are now involved in an intensive exchange with the Federal Institute. At the same time, the applications have been submitted to ethics commissions in the reporting period with a first positive feedback. Furthermore, we also prepared the application to conduct the study to the US regulatory authority FDA (= Food and Drug Administration) in the first quarter, which will now be submitted in a next step. The intensive current exchange with the BfArM makes us optimistic and different global orthopaedic companies reaffirmed their interest in the innovative silver coating technology as well as in the products of the LOQTEQ® family during talks currently conducted.

In connection with the package of measures adopted in April to strengthen our financial base we recently successfully completed a capital increase with subscription rights with gross issuing proceeds of around EUR 3.5 million. With the cash inflow from the capital increase and two further external financings we have approx. EUR 5.2 million at our disposal that we will use to finance our planned sales growth and the further development of our pioneering and innovative silver coating technology. We would like to thank all investors who contributed to the capital increase and thereby placed their trust in us.

Last but not least, we would like to take this opportunity to thank Mr. Alemu for the outstanding work he has done over the last decades in various Management Board positions at aap. He has laid the foundation on which we now would like to build and enter into growth phase by marketing our technologies and expanding national and international sales. For the next few months, there are still some challenging tasks ahead of us in order to achieve the goals set for 2019. First, we look forward to welcoming as many of our shareholders as possible to our Annual General Meeting on June 21, 2019 at the Ludwig Erhard Haus in Berlin.



Rubino Di Girolamo
Chairman of the Management Board / CEO



Marek Hahn
Member of the Management Board / CFO

Significant Events

During the first quarter of 2019, there were no events that had a significant impact on the earnings, asset or financial position of *aap* Implantate AG.

Significant Development Activities

In the **LOQTEQ®** area, *aap* concentrated its development activities primarily on the further completion of the portfolio in the first quarter of 2019. In the reporting period particular focus was on the polyaxial fixation technology, plating systems for the foot and ankle areas, as well as implants in sterile packaging. Another major focus was also in the first quarter on adapting processes and documents to the new regulatory requirements.

In the field of **silver coating technology**, with a view to the targeted market approval, *aap* has submitted the application for approval to conduct a human clinical study to the German Federal Institute for Drugs and Medical Devices ("BfArM") at the end of 2018. This was followed by an intensive exchange with BfArM in the first quarter of 2019. Additionally, applications were submitted to ethics commissions during the reporting period with a first positive feedback. Furthermore, the focus in the first quarter was on the preparation of the application to conduct a study to the US regulatory authority FDA (= Food and Drug Administration), which will now be submitted in a next step.

In the area of **resorbable magnesium implant technology**, *aap* primarily focused on the further development of technology and products in the first quarter of 2019. The company is also currently in talks with potential co-investors.

Earnings Position

Sales and margin development as well as total operating performance

aap had a successful start to financial year 2019 with significant **sales** growth. The company increased sales in the first quarter of 2019 by 26% to EUR 3.5 million compared to the same period in the previous year (Q1/2018: EUR 2.8 million). *aap* therefore realized a value above the forecast given in January of EUR 2.0 million to EUR 3.0 million.

All regions contributed with double-digit growth rates to the realized sales increase. *aap* was able to maintain the last financial year's momentum in Germany (+15%) and in international business (+28%) in the first quarter of 2019 as well and thereby recorded sustainable growth. In North America sales development was stabilized (+22%). This shows that the measures initiated in financial year 2018 are starting to have an effect.

The **total operating performance** increased by EUR 0.3 million to EUR 3.0 million in the first quarter of 2019 compared to the same period in the previous year due to the significant increase in sales despite a sharp increase in inventory reduction and an increased amount of capitalized own work. The continued development of inventory is pleasing, as *aap* managed to generate also in the first quarter of 2019 a significant portion of sales from the existing inventories.

Cost of materials dropped from EUR 0.5 million in the first quarter of 2018 to EUR 0.4 million in the reporting period. The same is true for the **cost of materials ratio** (with regard to sales revenues and changes in inventories), which fell to 15% (Q1/2018: 21%).

Based on the aforementioned developments, the continued focus on higher-margin markets but also on an improved product/customer mix, the **gross margin** (in terms of sales revenues, changes in inventories and cost of materials) increased from 79% in the same period in the previous year to 85% in the first quarter of 2019.

Cost Structure and Result

The **personnel expenses** decreased in the reporting period by EUR 0.1 million to EUR 1.9 million compared to the first quarter of 2018 (Q1/2018: EUR 2.0 million). The personnel cost ratio (in relation to total operating performance) decreased accordingly from 74% to 65% with an increase in total operating performance.

Other operating expenses fell by EUR 0.2 million to EUR 1.7 million in the first quarter of 2019 compared to the same period in the previous year (Q1/2018: EUR 1.9 million). On this basis, the other operating expenses ratio (in relation to total operating performance) decreased in the reporting period compared to the first quarter of 2018 from 69% to 58%.

Based on an increased total operating performance with a higher gross margin and lower total costs, *aap* realized a substantially improved **EBITDA** of EUR -1.0 million in the first quarter of 2019 (Q1/2018: EUR -1.6 million), which was also above the guidance from January of EUR -1.8 million to EUR -1.2 million. The increased depreciation of EUR 0.1 million is due to the introduction of the new IFRS 16 Leases.

The **EBIT** stood at EUR -1.6 million in the first quarter of 2019 (Q1/2018: EUR -2.0 million).

The increased **financial result** of EUR 0.2 million in the first quarter of 2019 compared to the same period in the previous year (Q1/2018: EUR -0.2 million) is due to the recognition of unrealized currency effects from intra-Group transactions within the financial result (US\$/EUR-Rate 03/31/2019: 1.1235 vs. US\$/EUR-Rate 12/31/2018: 1.2321).

Overall, *aap* therefore achieved a significantly improved **net result** of EUR -1.4 million in the first three months of the current financial year (Q1/2018: EUR -2.2 million).

Asset Position

aap's balance sheet had not changed significantly at the end of the first quarter of 2019 compared to 12/31/2018. **Total assets** dropped by 3% from EUR 42.2 million at year-end 2018 to EUR 41.0 million as at 03/31/2019.

The increase in **non-current assets** by EUR 1.0 million as of 03/31/2019 compared to the end of the 2018 financial year resulted mainly from higher additions from investments in intangible assets, while the property, plant and equipment fell because of lower additions from investments in relation to scheduled depreciation. In addition, the other financial assets fell due to released securities for balances with banks pledged to third parties to secure financial liabilities. Capitalized development costs increased compared to the reporting date as at 12/31/2018, in particular due to the development activities in the area of the silver coating technology and the planned further development of the LOQTEQ® portfolio by EUR 0.3 million. Furthermore, as a result of the first-time application of the IFRS 16 Leases, other intangible assets increased from EUR 0.2 million to EUR 1.5 million. For further details, please refer to the explanatory notes in the consolidated annual financial report 2018. As a result, the proportion of intangible assets to total assets increased from 31% to 36%.

Current assets decreased from EUR 19.7 million as at 12/31/2018 to EUR 17.4 million as of the balance sheet due date of the reporting period and were influenced above all by the decline in cash and cash equivalents, the reduction in inventories and trade receivables.

In addition to the reduction of capital tied-up in inventories (EUR -0.7 million), the development of **trade receivables** is also pleasing, which decreased by EUR 0.1 million to EUR 2.5 million as of 03/31/2019 with a sharp rise in sales. This also led to a significant improvement in the key figure DSO (Days Sales Outstanding), which is an important financial performance indicator for *aap* and amounted to 65 days in the first quarter of 2019 (average for FY/2018: 90 days).

Cash and cash equivalents fell in the first quarter of 2019 and amounted to EUR 2.7 million on the balance sheet due date (12/31/2018: EUR 4.3 million). Together with the tied-up liquidity holdings under the current and non-current other financial assets, the **cash holdings** as at 03/31/2019 amounted to EUR 5.3 million (12/31/2018: EUR 7.3 million).

Based on the net result of EUR -1.4 million, **equity** decreased to EUR 33.5 million as of 03/31/2019 (12/31/2018: EUR 34.9 million). With total assets of EUR 41.0 million as at 03/31/2019 (12/31/2018: EUR 42.2 million), the equity ratio is almost unchanged high at 82% (12/31/2018: 83%).

The **financial liabilities** increased to EUR 1.3 million as of 03/31/2019 due to the first-time application of the IFRS 16 Leases. The **trade accounts payable** decreased as at 03/31/2019 from EUR 2.1 million as of 12/31/2018 to EUR 1.8 million and **other financial liabilities** decreased by EUR 1.0 million to EUR 1.2 million (12/31/2018: EUR 2.1 million), while **other liabilities** decreased by EUR 0.2 million to EUR 1.4 million (12/31/2018: EUR 1.2 million).

Financial Position

Starting from a net result of EUR -1.4 million, the **operating cash flow** of *aap* in the first quarter of 2019 improved compared to the same period in the previous year to EUR -0.5 million (Q1/2018: EUR -1.4 million). The main year-on-year changes can be summarized as follows:

- Substantially improved operating result
- Working capital: Positive effects from the reduction in inventories (EUR 0.9 million) and a reduced level of trade receivables (EUR 0.1 million) as well as a countervailing effect from the reduction in trade accounts payable (EUR 0.4 million)
- Sharp decline in other accounts payable and other liabilities of EUR 0.6 million as a result of compensation for employees and a severance agreement from 2016

Cash flow from investing activities increased to EUR -1.0 million in the first quarter of 2019 (Q1/2018: EUR -0.5 million). In the first quarter of 2019, investments in development projects accounted for EUR 0.4 million (Q1/2018: EUR 0.3 million) and property, plant and equipment accounted for EUR 0.2 million (Q1/2018: EUR 0.2 million), while EUR 0.4 million were repaid to investment allowances.

The main effects in **financing activities** can be summarized as follows:

- Repayments on loan contracts in the amount of KEUR 5
- Repayments on finance leasing agreements in the amount of KEUR 35
- First-time disclosure for repayments of lease liabilities of KEUR 126 as a result of the first-time application of the IFRS 16 Leases

This resulted in a cash outflow of EUR 0.2 million from financing activities during the first quarter of 2019 (Q1/2018: cash outflow of EUR 0.2 million).

Cash and cash equivalents therefore decreased as at the reporting date, 03/31/2019, to EUR 2.7 million (12/31/2018: EUR 4.3 million). In addition, EUR 2.7 million in balances with banks was recognized under other financial assets, as it was pledged or deposited as a security to the financing bank for bank guarantees granted to third parties within the framework of securitizing financial liabilities.

The **net balance** (the sum of all cash and cash equivalents minus all interest-bearing liabilities) was EUR 0.8 million as at 03/31/2019 (12/31/2018: EUR 4.0 million).

aap therefore had **cash holdings** (sum of all freely available cash and cash equivalents and the tied-up liquidity holdings under the current and non-current other financial assets) in the amount of EUR 5.3 million as at the reporting date (12/31/2018: EUR 7.3 million).

Risk and Opportunity Report

The risk and opportunity situation of *aap* Implantate AG has not materially changed since the year end 2018. There are still no risks that would threaten the company's continued existence. All existing risks and opportunities as well as the structure and set-up of our risk and opportunity management are comprehensively presented in the consolidated annual financial report 2018.

Outlook

For the second quarter of 2019 *aap* anticipates sales of EUR 2.5 million to EUR 3.5 million as well as normalized (recurring) EBITDA (before one-time effects) of EUR -1.6 million to EUR -1.0 million respectively reported EBITDA (incl. one-time effects) of EUR -2.1 million to -1.5 million.

Supplementary Report

On 17 April 2019 *aap* announced the implementation of a capital increase with subscription rights as part of a package of measures to strengthen its financial base. The package of measures contains besides the capital increase with subscription rights two asset-based agreements. On 10 May 2019 *aap* announced the successful completion of the capital increase with subscription rights with gross issuing proceeds of around EUR 3.5 million. With the cash inflow from the capital increase and the both further external financings *aap* has approx. EUR 5.2 million at its disposal that the company will use to finance its planned sales growth and the further development of its pioneering and innovative silver coating technology.

On 15 April 2019 *aap* announced that the Supervisory Board of the Company and the Chairman of the Management Board / CEO, Bruke Seyoum Alemu, agreed on an early termination of his term of office as of 30 April 2019. Bruke Seyoum Alemu thereupon resigned his mandate as Member and Chairman of the Management Board / CEO of *aap* by mutual agreement with the Supervisory Board with effect as of 30 April 2019 and retired from the Management Board at this time. Mr. Alemu will further on support the Company on a consulting basis. The Supervisory Board appointed Mr. Rubino Di Girolamo, at this

time still Member of the Supervisory Board at *aap*, as successor and new Chairman of the Management Board / CEO with effect as of 1 May 2019. In addition, the Management Board and Supervisory Board of *aap* resolved to propose Ms. Dr. Natalie Krebs to the competent commercial register for a judicial appointment as new Member of the Supervisory Board and successor of Mr. Di Girolamo for the period until the end of the Annual General Meeting of the company on 21 June 2019. In the meanwhile, the judicial appointment has taken place.

Selected Financial Data

Consolidated Balance Sheet (unaudited)

ASSETS (KEUR)	2019	2018
	03/31/2019	12/31/2018
Non-current assets	23,528	22,493
• Intangible assets	14,803	13,286
▶ Capitalized services	13,342	13,069
▶ Other intangible assets	1,461	217
• Tangible assets	6,727	6,876
• Financial assets	183	183
• Other financial assets	227	560
• Deferred taxes	1,589	1,589
Current assets	17,426	19,728
• Inventories	8,902	9,617
• Accounts receivable (trade debtors)	2,529	2,663
• Other financial assets	2,838	2,850
• Other assets	488	337
• Cash and cash equivalents	2,669	4,260
Total assets	40,954	42,221

LIABILITIES AND SHAREHOLDERS' EQUITY (KEUR)	2019	2018
	03/31/2019	12/31/2018
Shareholders' equity	33,512	34,919
• Subscribed capital	28,707	28,707
• Capital reserve	20,013	19,999
• Revenue reserve	11,776	11,776
• Other reserve	0	0
• Consolidated balance sheet profit / loss	-27,023	-25,673
• Currency conversion differences	39	110
Non-current liabilities (above 1 year)	3,459	2,630
• Financial liabilities	875	0
• Other financial liabilities	320	343
• Deferred taxes	1,517	1,517
• Provisions	37	37
• Other liabilities	711	733
Current liabilities (up to 1 year)	3,982	4,671
• Financial liabilities	387	5
• Trade accounts payable	1,793	2,149
• Other financial liabilities	850	1,796
• Provisions	238	239
• Other liabilities	714	483
Total liabilities and shareholders' equity	40,954	42,221

Consolidated Statement of Comprehensive Income (unaudited)

INCOME STATEMENT (KEUR)	2019	2018
	01/01/2019 - 03/31/2019	01/01/2018 - 03/31/2018
• Sales	3,501	2,782
• Changes in inventories of finished goods and work in progress	-914	-390
• Other own and development work capitalized	409	302
Total operating performance	2,996	2,694
• Other operating income	77	74
• Cost of purchased materials and services	-397	-492
• Personnel expenses	-1,945	-2,005
• Other operating expenses	-1,727	-1,870
• Other taxes	-1	12
EBITDA	-998	-1,588
• Depreciation of tangible assets and intangible assets	-571	-410
EBIT	-1,569	-1,998
• Financial result	220	-238
EBT	-1,350	-2,235
• Income tax	0	-7
Net result/ Total comprehensive income	-1,350	-2,244
Total result after taxes	-1,350	-2,244
• Earnings per share (undiluted) in EUR	-0.05	-0.08
• Earnings per share (diluted) in EUR	-0.05	-0.08
• Weighted average shares outstanding (undiluted) in thousand pieces	28,707	28,644
• Weighted average shares outstanding (diluted) in thousand pieces	28,707	28,991

Consolidated Statement of Cash Flows (unaudited)

(KEUR)	2019	2018
	01/01/2019 - 03/31/2019	01/01/2018 - 03/31/2018
Cash & cash equivalents at beginning of period (previous year incl. held for sale)	4,260	13,279
Cash flow from operating activities	-468	-1,367
Net income after tax	-1,350	-2,244
• Changes in working capital	662	339
• Share-based compensation	14	31
• Depreciation / Appreciation on fixed assets	571	410
• Change in provisions	-1	-90
• Changes in other assets and receivables	198	223
• Changes in other liabilities	-567	-44
• Interest rates allowance / income	5	8
• Corporate tax allowance / income	0	7
• Income tax payments	0	-7
Cash flow from investment activities	-958	-484
• Outflows for investments in fixed assets	-162	-155
• Outflows for investments in intangible assets	-411	-329
• Other in- and outflows from investment grants	-384	0
Cash flow from financial activities	-171	-204
• Outflows from redemption of loans	-5	-83
• Outflows from redemption of finance lease	-35	-114
• Outflows from lease payables	-127	0
• Interest rates paid	-4	-8
Gain / loss on liquidity of exchange rate changes	5	-7
• Increase / Decrease in cash & cash equivalents	-1,591	-2,062
Cash & cash equivalents at end of period	2,669	11,217

Consolidated Statement of Changes in Equity (unaudited)

			Revenue reserves		Non-cash changes in equity					
	Subscribed capital	Initial capital payments made for capital increase	Capital reserve	Legal reserves	Other revenue reserves	Revaluation reserve	Difference from currency translation	Total	Balance sheet result	Total
(KEUR)										
Status 01/01/2019	28,707	0	19,999	42	11,734	0	110	110	-25,673	34,919
Increase in shares								0		0
Stock options			14					0		14
Income of the group as of 03/31/2019								0	-1,350	-1,350
Currency conversion differences							-71	-71		-71
Other comprehensive income								0		0
Total comprehensive income	0	0	14	0	0	0	-71	-71	-1,350	-1,407
Status 03/31/2019	28,707	0	20,013	42	11,734	0	39	39	-27,023	33,512
Status 01/01/2018	28,644	0	19,865	42	11,244	490	280	770	-18,007	42,559
Increase in shares								0		0
Stock options			31					0		31
Income of the group as of 03/31/2018								0	-2,244	-2,244
Currency conversion differences							42	42		42
Other comprehensive income								0		0
Total comprehensive income	0	0	31	0	0	0	42	42	-2,244	-2,170
Status 03/31/2018	28,644	0	19,896	42	11,244	490	323	813	-20,251	40,389

Company Calendar

2019

- **May 14, 2019**
Frühjahrskonferenz 2018 (Analyst Meeting)
Frankfurt am Main
- **June 21, 2019**
Annual General Meeting
Berlin
- **August 14, 2019**
Interim report 2nd quarter 2019
- **November 14, 2019**
Quarterly statement 3rd quarter 2019
- **November 25 - 27, 2019**
German Equity Forum 2019 (Analyst Meeting)
Frankfurt am Main

Forward-looking statements

This report contains forward-looking statements based on current experience, estimates and projections of the management board and currently available information. They are not guarantees of future performance. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. Many factors could cause the actual results, performance or achievements of *aap* to be materially different from those that may be expressed or implied by such statements. These factors include those discussed in *aap*'s public reports. Forward-looking statements therefore speak only as of the date they are made. *aap* does not assume any obligation to update the forward-looking statements contained in this release or to conform them to future events or developments.

© **aap Implantate AG**
Lorenzweg 5 • 12099 Berlin • Germany
Phone +49 30 75019 - 133
Fax +49 30 75019 - 290

ir@aap.de
www.aap.de

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aap Implantate AG

Lorenzweg 5 • 12099 Berlin • Germany

Phone +49 30 75019-133

Fax +49 30 75019-290

ir@aap.de • www.aap.de