



## 2019 annual results

- **Gross margin increased to 76.6%**
- **Excellent monitoring of operating expenses**
- **Improved WCR**

## Implementation of strategic plan

<i>In thousands of euros Consolidated accounts</i>	<b>2019</b>	<b>2018</b>
<b>Revenue</b>	<b>5 018</b>	<b>6 515</b>
<b>Gross margin</b>	<b>3 844</b>	<b>4201</b>
<b>% of revenue</b>	<b>76.6%</b>	<b>64.5%</b>
Operating revenue	1 559	823
External expenses	- 2 517	- 2 719
Personnel expenses	- 2 520	- 3 612
Depreciation, amortization and provisions	- 2 213	- 1 817
Other operating expenses	-478	-754
<b>Operating income</b>	<b>- 2 325</b>	<b>- 3 878</b>
<b>Net income</b>	<b>- 2 876</b>	<b>- 4 124</b>

*Spineway's Board of Directors, at a meeting held on 15 April 2020 chaired by Stéphane Le Roux, closed the 2019 annual accounts. The Group's Statutory Auditors have audited these accounts and their reports are being prepared.*

### **The restructuring is bearing fruit**

SPINEWAY closed a structural 2019 financial year during which it redeployed its activities in its existing distribution areas, extensively reorganized its teams and renewed half its Executive Committee at the end of 2019. The geopolitical situation in Latin America automatically had an adverse effect on the Group's activity, resulting in total revenue of €5 018K for the financial year.

The measures taken made it possible for **the Group's gross margin to improve and reach almost 77%** of the revenue compared with 64% the previous year. It benefited from a favorable mix of an improved gross production margin and the positive effect of destocking. Operating revenue went up €736K following the freezing of certain R&D expenses (€358K) and reversals of inventory positions representing €777K compared with €189K the previous year.

Furthermore, streamlining the workforce led to a **30% drop in personnel expenses** for the Group compared with 2018 and the clearance of client accounts resulted in close to €400K in write-offs. These management efforts were accompanied by **excellent monitoring of operating expenses, which allowed the operating**

**income to increase by €1 553K** to reach –€2 325K by the end of December. **Net income followed the same positive trajectory and increased by €1 248K**, following a nonrecurring expense of €444K in connection with the streamlining of the workforce, reaching –€2 876K compared with –€4 124K in 2018.

### Strengthened financial structure and debt ratio down to 30%

During the course of the financial year, in addition to its reorganization, the Group **managed its WCR, which dropped by 32%**, from €3.7M in 2018 to €2.8M as at 31 December 2019.

Spineway also strengthened its financial structure via a financing agreement with Negma Group<sup>1</sup> to ensure its organic growth and finance new development projects.

Setting up new bond issues made it possible for **available cash to reach €2 575K as at 31 December 2019** compared with €141K last year. Likewise, the capital increases carried out during the financial year, representing a net total of<sup>2</sup> €5 277K, increased the **shareholders' equity to €6 493K** compared with €946K at the end of December 2018. As a result, **the Group's net debt dropped sharply to €2 040K** (compared with €4 092K in 2018) thereby also decreasing the **debt ratio<sup>3</sup> to 30%**.

### Business continuity plan during the health crisis

In order to protect its employees' health and safety, the Group implemented a work-from-home policy as of 16 March 2020 for all compatible jobs, allowing it to **keep its main administrative departments operational during the shelter-in-place order** (finance, IT, marketing, quality control, HR, etc.) **and maintain the ability to deliver its products** to all its clients and distributors. As most spinal surgeries have been postponed at this time, Spineway has also drawn up an overall plan for partial activity approved by the DIRRECTE (regional authority for companies, competition and labor), allowing it to adapt its workforce and protect its cash position during this period.

It is currently difficult to determine and fully evaluate the global impact this crisis will have on the 2020 financial year. Spineway has put in place measures in line with government provisions and measures to optimize short-term cash requirements (deferment of social-security contributions report, early payment of the research tax credit, etc.). The Group specifies that discontinuing operations, based on the information available to date, is in no way under consideration and that it has the support of its financial partners to weather this unprecedented situation.

### Financing and prospects confirmed

Spineway is fully committed to providing the best service possible for its direct clients in France and its international distribution partners, preparing as well as possible the return to activity and keeping the effects of the health crisis to a minimum. Furthermore, the Group's international scope should put it in a good position to benefit from the return to activity that will certainly be sequential.

As expected, revenue for the first quarter of 2020 was of €1 032K (€1 397K in Q1 2019) following the planned decrease in sales in France (-60%) and in the Middle East (-58%). Likewise, the development of new partnerships by the US subsidiary had not yet had the time to be reflected in the quarterly numbers before the health crisis. Nevertheless, the Group's other areas remained dynamic and posted good results.

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<sup>1</sup> See press release dated 18 October 2019

<sup>2</sup> €49K from the exercise of Warrants by Yorkville + €1M in cash reserved for Park Capital + €4.2M from the conversion of bonds by ABO. The breakdown of the financing is provided in the annual financial report.

<sup>3</sup> Net debt / Equity

- Sales in Asia were up 43% compared with 2019, at €241K compared with €168K, despite the situation that quarter due to the health crisis on that continent;
- Sales in Latin America, despite the still-complicated geopolitical and economic context, went up 13% to €528K compared with €469K in 2019. Growth in the area should continue after the shelter-in place order is lifted and be reflected in the figures for the second half of 2020.

During this unprecedented time, **Spineway has in no way lost its desire to participate in the consolidation of the sector in order to become a key European player in the field of spinal surgery.** With this in mind, the Group has begun talks with certain targets and is also pursuing its organic growth through its highest-added-value product lines. The Group will, in particular, focus on strengthening its relationships with opinion leaders, develop its Clinical and Regulatory Affairs to comply with new regulations (EU MDR) and continue to innovate to improve techniques as well as the surgical movements of spinal surgeons.

With the approval of its financial partner Negma, Spineway decided to enter a second phase of financing representing a total of €6M. The purpose of this financing is to support and enable the implementation of its strategic plan as well as help meet the Group's cash requirements for its routine activities. This second phase will be rolled out in accordance with a monthly schedule to be adjusted based on the company's needs, in particular as regards external-growth projects.

Thus, in accordance with:

- the delegation of power granted by the Extraordinary General Shareholders' Meeting held by Spineway (the "**Company**") on 3 October 2019;
- the Company's Board of Directors' decision of 17 October 2019 approving the issue of 16 000 warrants (the "**Tranche Warrants**") the exercise of which gives access to the issue of a maximum of 16 000 bonds convertible into new ordinary shares (the "**Convertible Bonds**") with warrants (the "**Warrants**"), representing a bond issue for a maximum total par value of 40 000 000 euros, with cancellation of the shareholders' preferential subscription right in favor of NEGMA GROUP LTD (the "**Investor**")<sup>4</sup>;

the second tranche of Convertible Bonds was approved with the following terms and conditions:<sup>5</sup>

- 1<sup>st</sup> tranche in April 2020 for 3 600 000 euros, i.e., 1 600 convertible bonds with a par value of 2 500 euros according to the following schedule:
  - Phase 1 on 16 April 2020: 1 120 convertible bonds
  - Phase 2 in one or two phases before the end of April 2020: 480 convertible bonds
- 2<sup>nd</sup> tranche by 04 September 2020 for a maximum of €2 400 000, giving right to a maximum of 960 bonds with a par value of 2 500 euros, to be carried out in one or more phases.

The Company would like to recall the following:

- The Convertible Bonds have a par value of 2 500 euros each and are subscribed at 100% of par.

<sup>4</sup> See press release dated 18 October 2019

<sup>5</sup> It being understood that this schedule is provided as an indication and that the phases shall be adjusted based on need.

<sup>6</sup> Events of default include, in particular, the suspension of the listing of the SPINEWAY shares, the announcement of a takeover of the Company and any significant adverse change.

- The Convertible Bonds have a maturity of 12 months from their date of issuance. In the event of default<sup>6</sup>, a significant adverse event<sup>7</sup>, a change in control or failure to deliver new shares in accordance with the Issuance Agreement, the Convertible Bonds that have not been converted shall be redeemed by the Company at par. Upon maturity, the Convertible Bonds shall be converted by their bearer into SPINEWAY shares. The Convertible Bonds shall not bear interest.
- At its discretion, the Investor may, at any time, convert all or any of the Convertible Bonds into new ordinary shares (a “**Conversion**”). Upon a Conversion, the Investor shall determine the number of Convertible Bonds to be converted and the total par value to be converted (the “**Conversion Amount**”).
- A compensation mechanism is applied if there is a difference between the Conversion Amount and the last trading price.<sup>8</sup>

Please note that further information on the characteristics of the Tranche Warrants, Convertible Bonds and Warrants is available on the Company’s website and in the press release dated 18 October 2019.

For reference, assuming the Company decides to remit only new shares upon Conversion of the Convertible Bonds, the impact of the issuance of the Convertible Bonds with Warrants attached would be as follows:

- Impact of the issuance on the consolidated net assets per share (based on the shareholders’ equity as at 31 December 2019, plus the various capital transactions that might have taken place in the meantime, i.e., 11.477M euros, and the number of shares making up the Company’s share capital as at 15 April 2020, i.e., 979 571 079 shares):

	Consolidated net assets per share (non-diluted basis)	Consolidated net assets per share (fully diluted basis) <sup>(a)</sup>
Before issuance	€0.0117	€0.0114
After issuance of a maximum of 1 647 058 823 ordinary new shares upon conversion of Convertible Bonds alone (1 120 second-tranche Convertible Bonds)	€0.0054	€0.0060
After issuance of a maximum of 1 774 331 550 ordinary new shares upon conversion of Convertible Bonds and exercise of the attached Warrants (1 120 second-tranche Convertible Bonds)	€0.0055	€0.0060
After issuance of a maximum of 6 000 000 000 ordinary new shares (for 5 200 Convertible Bonds) upon conversion of only a portion of the Convertible Bonds in accordance with the applicable ceiling	€0.0028	€0.0031
After issuance of a maximum of 6 000 000 000 ordinary new shares (for 5 200 Convertible Bonds) upon conversion of only a portion of the Convertible Bonds and without exercise of the attached Warrants, for all tranches in accordance with the applicable ceiling	€0.0028	€0.0031

<sup>(a)</sup> assuming the exercise/conversion of all the dilutive instruments existing to date that could result in the creation of a theoretical maximum of 330 455 736 new shares, including the exercise of the 137 805 Warrants issued pursuant to the issuance of ORNANE with Warrants in favor of the YA II PN, LTD investment fund and the 80 916 666 Warrants issued pursuant to the issuance of OCEANE with Warrants in favor of the European High Growth Opportunities Manco S investment fund, as

<sup>6</sup> Events of default include, in particular, the suspension of the listing of the SPINEWAY shares, the announcement of a takeover of the Company and any significant adverse change.

<sup>7</sup> Any and all events or circumstances constituting a significant adverse change affecting the assets or the Company’s financial or commercial situation, subject to such change being considered materially adverse only if it had or could reasonably have an unfavorable net impact on the Company’s financial situation or assets exceeding 1 000 000 euros.

<sup>8</sup> In accordance with clause 8.3 of the Negma financing agreement

well as the 198 000 000 Warrants issued pursuant to the issuance of Convertible Bonds with Warrants in favor of the Park Capital investment fund.

Such dilution is without prejudice to either the final number of shares to be issued or their issue price, which shall be set based on the market price in accordance with the terms and conditions set forth above.

Impact of the issuance on the situation of a shareholder currently owning 1% of the Company's capital, based on the number of shares making up the Company's share capital as at 15 April 2020, i.e., 979 571 079 shares):

	Consolidated net assets per share (non-diluted basis)	Consolidated net assets per share (fully diluted basis) <sup>(a)</sup>
Before issuance	1%	1%
After issuance of a maximum of 1 647 058 823 ordinary new shares upon conversion of Convertible Bonds alone (1 120 second-tranche Convertible Bonds)	0.37%	0.44%
After issuance of a maximum of 1 774 331 550 ordinary new shares upon conversion of Convertible Bonds and exercise of the attached Warrants (1 120 second-tranche Convertible Bonds)	0.36%	0.42%
After issuance of a maximum of 6 000 000 000 ordinary new shares (for 5 200 Convertible Bonds) upon conversion of only a portion of the Convertible Bonds in accordance with the applicable ceiling	0.11%	0.15%
After issuance of a maximum of 6 000 000 000 ordinary new shares (for 5 200 Convertible Bonds) upon conversion of only a portion of the Convertible Bonds and without exercise of the attached Warrants, for all tranches in accordance with the applicable ceiling	0.11%	0.15%

<sup>(a)</sup> assuming the exercise/conversion of all the dilutive instruments existing to date that could result in the creation of a theoretical maximum of 330 455 736 new shares, including the exercise of the 137 805 Warrants issued pursuant to the issuance of ORNANE with Warrants in favor of the YA II PN, LTD investment fund and the 80 916 666 Warrants issued pursuant to the issuance of OCEANE with Warrants in favor of the European High Growth Opportunities Manco S investment fund, as well as the 198 000 000 Warrants issued pursuant to the issuance of Convertible Bonds with Warrants in favor of the Park Capital investment fund.

Such dilution is without prejudice to either the final number of shares to be issued or their issue price, which shall be set based on the market price in accordance with the terms and conditions set forth above.

### **Extraordinary and Ordinary General Shareholders' Meeting of 26 May 2020**

Spineway will hold its Extraordinary and Ordinary General Shareholders' Meeting on **Tuesday, 26 May 2020**. In view of the COVID-19 pandemic, the Extraordinary and Ordinary General Shareholders' Meeting will be held as a closed session. Shareholders are invited to participate via a postal voting form or, if necessary, by proxy granted to the Chairman. The rules for holding the General Meeting may change depending on health and/or legal requirements. Shareholders are asked to consult regularly the section dedicated to the General Meeting on the Company's website.

***The annual accounts are available on the Company's website in the Investors section.  
The Statutory Auditors' report and the management report will be available as from 22 April 2020.***

**SPINEWAY IS ELIGIBLE FOR THE PEA-PME (EQUITY SAVINGS PLANS FOR SMES)**

Find out all about Spineway at [www.spineway.com](http://www.spineway.com)

**Upcoming: 26 May 2020 – General Meeting**

This press release has been prepared in both English and French. In case of discrepancies, the French version shall prevail.

**Spineway designs, manufactures and markets innovative implants and surgical instruments for treating severe disorders of the spinal column.**

**Spineway has an international network of over 50 independent distributors and 90% of its revenue comes from exports.**

**Spineway, which is eligible for investment through FCPIs (French unit trusts specializing in innovation), has received the OSEO Excellence award since 2011 and has won the Deloitte Fast 50 award (2011). Rhône Alpes INPI Patent Innovation award (2013) – INPI Talent award (2015).**

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