Semester report at June 30th, 2020

- **Improved operating income despite activity being heavily impacted by the COVID-19 pandemic**
- **Strengthened financial structure**
- **Gradual return to surgery in the third quarter of 2020**

In thousands of euros *Consolidated accounts**	**HY1 2020**	**HY1 2019**	**% variation**
Revenue	**1 426**	**2 623**	**- 46%**
Cost of goods sold	- 540	- 853	- 37%
Gross margin *Gross margin rate*	886 *62.1%*	1 670 *63.7%*	- 47% *- 1.6 points*
Operating costs *Including operational costs* *Including personnel expenses*	- 2 250 *- 1 266* *- 1 170*	- 3 348 *- 1 379* *- 1 605*	- 33% *- 8%* *- 27%*
Operating income	**- 1 364**	**- 1 578**	**+ 14%**
Financial income *Including Negma financial one-offs*[1] Non-recurring items	- 10 575 - 10 561 -72	- 29 - 4	
Net income **Including restated net income**[1]	- 12 011 **- 1 450**	- 1 610 **- 1 610**	 **+ 10%**

**figures not audited*

Spineway's Board of Directors, at a meeting held on 26 October 2020 chaired by Stéphane Le Roux, closed the 2020 half-year results.

As announced, sales for the first half of 2020 were naturally affected by the health crisis caused by the coronavirus pandemic as this led to the cancellation of non-essential surgeries worldwide.

During this unprecedented time, the Spineway group was fully committed to providing the best possible services to its direct clients in France and its international distribution partners. These efforts allowed the Group to keep its revenue for the second quarter at close to 30% of that of the previous year despite a very

[1] See explanation of this one-off expense on page 2 under net income

complicated international situation, resulting in half-year revenue of €1.4M as at 30 June 2020 (-46% compared with HY1 2019).

Improvement of operating income in an unprecedented economic climate

For the first half of 2020, the gross margin was of €0.9M compared with €1.7M in 2019 due, in particular, to the effects of the health crisis (significant volume effect) and a margin decrease due to the product mix, resulting in a slight drop in sales prices.

This margin decrease was nevertheless offset by lowering operating expenses by 33%. This decrease in operating expenses is a result of structural factors such as the full effect of the personnel plan implemented in 2019 controlling structural costs, as well as situational factors such as lower marketing and sales budgets due to the pandemic.

This overall improvement in operating expenses was achieved despite increased regulatory costs, i.e., costs in connection with preparing for upcoming 2021 regulation changes, and ongoing costs in connection with innovative projects to increase the versatility of the product lines and reach premium market segments.

Operating income of –€1.4M thus improved by 14% and could have been almost even without the drop in revenue due to COVID-19.

Net income negatively impacted by one-off items

The recording of a one-time financial expense of €10.6M representing compensation for the Negma financing agreement negatively affected the financial income and therefore net income. Indeed, the agreement provides for compensation if the market price falls below the share's par value. As the changes in the stock market in 2020 were very unfavorable to Spineway's share price, the vesting of tranches required compensation. In order to protect itself from this mechanism, Spineway decreased the share's par value twice during the financial year. **This financial burden did not result in any outflow of cash** for the Group and was fully financed in Spineway shares.

Restated to include this non-recurring expense, the Group's net income was therefore of –€1.5M, compared with a loss of €1.6M the previous year, i.e., a 10% increase.

Strengthening of the financial structure and debt ratio down to 7%

During the course of the financial year, the Group strengthened its cash position via the financing agreement entered into with Negma. The conversion of bonds convertible or exchangeable for ordinary new or existing shares (*OCEANE*)[2] during the period from January to April 2020 resulted in capital increases of €8.5M that generated over €4M in net cash for the Group. In addition, Spineway also obtained a government-backed loan (*PGE*) of €1.4M.

Thus, at the end of June, that cash position was of €3.3M, providing the Group with the means necessary to cover its development. Net debt amounted to €0.5M and gearing (net debt/equity) was at 7%, compared with 30% at the end of December.

The Group has the support of its financial partners to get through these unprecedented times and build projects that will create added value in the long term.

[2] The breakdown of such financing is provided in the half-year financial report.

Gradual return of surgery based on the pandemic situation

Surgeries started being scheduled again during the third quarter of 2020, allowing nine-month revenue to reach €2.3M at the end of September 2020. This slow return nevertheless remains limited by the fact that the Group's clients, mainly made up of distributors that, in order to weather the crises, must regulate their needs in order to optimize their inventory and cashflow.

In thousands of euros	2020*	2019	% variation
HY1 revenue	1 426	2 623	- 45%
Q3 revenue	886	1 267	- 31%
9-month revenue	**2 312**	**3 934**	**- 41%**

** Figures not audited*

The pandemic situation in Latin America remains complex, preventing the organic growth expected in Peru and Ecuador. Revenue for the first nine months of the year was therefore €1M, compared with €2M in 2019. However, as with the first six months of 2020, Asia was able to maintain its level of activity at €0.5M over nine months despite a delay in sales in Japan. For its part, Europe benefitted from sales in France trending up during the third quarter (+28% compared with the third quarter of 2019) but remains low overall at the end of September with revenue of €0.6M.

Activity continues to be driven by the Group's two main product lines: Mont-Blanc, which remains the Group's leader generating 51% of total revenue, and the MIS line, which represents 18% of sales. The Group is currently working on innovative projects that will contribute to the organic growth of these product lines. The recent launch of the Mont-Blanc MIS modular platform for instruments that allows surgeons to choose their preferred surgical approach while ensuring the safety and ease of surgical gestures is an integral part of this direction and should add to sales momentum over the coming months.

Thanks to a strengthened financial situation and confirmed recovery in certain areas, Spineway will pursue development in order to return to a standard level of sales.