

Sygnis

H1 update

Bigger, stronger, faster

Following the acquisition of Expedeon, Sygnis expects to achieve profitability in 2017 if sales grow to about €7m; management is focused on achieving sales synergies and controlling costs. The acquisition was funded by issuing 20.54m shares at €1.10 each including a cash fund-raising of €5.3m gross. Sygnis produces innovative molecular biology kits, while Expedeon makes well-designed products for protein analysis. Expedeon has a UK- and US-focused, 13-person sales and marketing team and a five-year sales CAGR of about 20%. Integration and sales training will take most of 2016. Guidance on sales is expected in November 2016.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	0.39	(1.92)	(19.27)	0.0	N/A	N/A
12/15	0.56	(2.62)	(19.31)	0.0	N/A	N/A
12/16e	3.18	(1.01)	(3.79)	0.0	N/A	N/A
12/17e	6.90	0.73	1.94	0.0	67.0	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Expedeon financials and deal structure

The acquisition cost of Expedeon at the rights issue price of €1.10/share was €19.0m (£16.4m), about 4.6x its 2016e sales of €3.5m as guided by Sygnis, up from €2.5m in 2015. We estimate that sales of up to €1.7m will be consolidated in H216. Expedeon's EBITDA margin in 2015 is stated to be 13% (about €325k), suggesting a purchase price of about 49x 2015 EBITDA. The margin may, we estimate, increase to 15% in 2016. The acquisition is crucial for the medium- to long-term profit potential.

Sygnis H1 results and rights issue

Sygnis reported €319k in sales in H116. The reported H116 net loss was €1.4m, down from a €1.9m loss in H115. The H116 cash outflow including capitalised R&D was €1.74m before other costs and capital expenditure of -€0.41m, giving an H1 cash use of €2.15m. Cash was €2.4m as of 30 June. Edison estimates year-end 2016 cash of €5m after the funding and acquisition. Sygnis issued 20.5m new shares in July, making 37.34m in issue; there were 16.53m in issue as of 30 June.

Valuation: Acquisition gives solid basis for growth

Our May 2016 forecast is for 2016 consolidated revenues of around €3.2m (€5m annualised), with the loss reducing to about €1.0m. Revised guidance is expected from Sygnis with Q3 results in November. At the current price the enlarged group market cap is €48.5m, about 7x our combined 2017e sales estimate of €6.9m. From 2017 onwards, sales synergies, growth and cost control could enable profitability. Expedeon has a strong OEM sales channel with Sigma and a Chinese deal with Tanon. These deals might offer further opportunities for Sygnis's molecular biology products. Sygnis also plans to use its innovative molecular biology technology to enter the research market for liquid biopsy tests – tests for DNA fragments in the blood that can track and detect cancers. This could be a major product but is still in late-stage development.

Healthcare equipment & services

19 September 2016

Price **€1.3**

Market cap **€49m**

€1.26/£

Cash (€m) at 30 June 2016 2.4

Shares in issue (1 August 2016) 37.3m

Free float 56%

Code LIO1

Primary exchange Frankfurt

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 4.3 1.6 (38.6)

Rel (local) 8.4 (5.6) (38.9)

52-week high/low €2.5 €1.1

Business description

Sygnis develops polymerases for the amplification and sequencing of DNA. It launched a directly sold web range of products in 2015, with more products due in 2016. It also uses distributors. Sygnis acquired Expedeon, a larger proteomics business with direct sales capability, in July 2016.

Next events

Q3 results 20 November 2016

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Good strategic fit

The completion of the Expedeon acquisition has transformed Sygnis's growth prospects although the full impact will not be visible until 2017 and 2018. Management has focused initially on controlling costs and integration of the businesses. Expedeon started selling Sygnis kits in June.

Sygnis's core IP is a range of novel engineered enzymes for genetic analysis and genome sequencing. The two own brands are TruePrime and SunScript. TruePrime kits copy and amplify the whole genome before DNA analysis and gene sequencing. The SunScript kit converts short-lived RNA messages in cells into DNA for analysis or sequencing. The two kits can be combined effectively to give high-quality results.

Expedeon sells a diverse range of convenience electrophoresis products. The products offer good value through innovative features and are not discounted. Expedeon also sells other reagents for extracting and analysing proteins. There are 13 sales and marketing staff in total. Manufacturing is done in the UK and US.

The two types of product lines are often used by different types of researchers, although there may be a lot of overlap depending on the project. However, they will often be in the same research facility so it should be easy to add in extra sales calls and boost the sales per call as a result.

A product in late-stage development is a cell-free DNA kit for liquid biopsy for research use. This will look for fragments of cancer DNA in the patient's blood. It will require some level of testing. It is possible that Sygnis's range of novel enzymes will offer a performance advantage. The liquid biopsy area is growing fast but is still an immature market.

Sensitivities

In terms of the combined business, these are two different sets of expertise, so integrating the operations might not be straightforward. The long lock-up period of 18 months should delay any share overhang effect on the share price until late 2017. This lock-up also extends to major Sygnis shareholders (those owning more than 3%).

Valuation

Edison has not changed the valuation or forecast from May 2016 as there is no significant new data. Guidance on the progress of the integration and the potential sales in 2016 and particularly 2017 will be issued in November with the Q3 results.

The Edison forecast is for consolidated 2016 revenues of around €3.2m (Exhibit 1), with an estimate that Expedeon might contribute over €228k EBITDA (at a 13% margin) in 2016 (half year). We assume that Expedeon brings €500k in cash.

Exhibit 1: Highlights for 2016 comparing pre- and post-acquisition operational forecasts

2016 (€000s)	Sygnis pre-merger	Expedeon	Merged
Revenues	1,425.0	1,750.0	3,175.0
CoG	(69.3)	(402.5)	(471.8)
Operational costs	(3,195.0)	(1,085.0)	(4,280.0)
Operating loss	(1,839.3)	262.5	(1,576.8)

Source: Edison Investment Research. Note: For this exhibit we assume as if consolidated from 1 July 2016.

At a share price of €1.30, current at the time of writing, the enlarged Sygnis has a market capitalisation of about €48.5m, which would be about a 7x multiple on Edison's annualised combined sales forecasts for 2017 of €6.9m. In 2017, sales synergies should be in place, direct

sales of molecular biology kits could have risen and costs should have been rationalised, all of which might take the merged business to profitability. A trajectory of high-growth and controlled costs would give a very favourable profit outlook for 2018 and 2019, although at the moment it is too early to be clear about the longer-term prospects for the business.

Financials

Sales in H1 were €319k, up from €196k in H115. Operating expenses were €1.76m, down from €2.07m in H115 showing cost control. After minor tax and exchange rate movements, the H116 loss was €1.45m, down from €1.91m in H115.

Cash was €2.41m on 30 June, down from €4.56m on 31 December 2015; the cash outflow was €2.15m after an operating cash outflow of €1.51m, capitalised R&D of €0.22m and financing costs of €0.38m plus minor capital expenditure.

We have updated our financial model to reflect the rights issue outcome with €5.3m gross cash, up from €5.0m. This slightly affects our year-end cash forecast, raised to €5.0m from €4.7m, but the forecast is otherwise unchanged.

These figures relate to the pre-acquisition Sygnis so offer little guide to the development of the new entity.

Rights issue

The rights issue in July 2016 issued 20.5 million shares. Of these, 15.7 million were issued in kind to Expedeon shareholders in payment for their shares. Sygnis then issued 3.0 million shares to existing shareholders and a further 1.8 million shares to new investors. This has increased the number of shares in issue to capital to 37.34m. Costs have not been disclosed, but Edison expects integration and legal costs of about €1.5m. This is offset by approximately €0.5m in cash acquired with Expedeon.

Exhibit 2: Financial summary

€'000s	2014	2015	2016e	2017e
	IFRS	IFRS	IFRS	IFRS
Year end 31 December				
PROFIT & LOSS				
Revenue	392	555	3,175	6,900
Cost of Sales	0	0	0	0
Gross Profit	392	555	3,175	6,900
EBITDA	(1,724)	(2,394)	(932)	803
Operating Profit (before GW and except.)	(1,781)	(2,445)	(983)	752
Intangible Amortisation	(524)	(329)	(344)	(344)
Exceptionals	(283)	(828)	0	0
Other	(620)	(260)	(250)	(250)
Operating Profit	(3,208)	(3,862)	(1,577)	158
Net Interest	(137)	(177)	(30)	(26)
Profit Before Tax (norm)	(1,918)	(2,622)	(1,013)	726
Profit Before Tax (FRS 3)	(3,345)	(4,040)	(1,607)	132
Tax	(135)	29	0	0
Profit After Tax (norm)	(2,053)	(2,593)	(1,013)	726
Profit After Tax (FRS 3)	(3,480)	(4,011)	(1,607)	132
Average Number of Shares Outstanding (m)	10.7	13.4	26.8	37.3
EPS - normalised (c)	(19.27)	(19.31)	(3.79)	1.94
EPS - FRS 3 (c)	(32.7)	(29.9)	(6.0)	0.4
Dividend per share (c)	0.0	0.0	0.0	0.0
Gross Margin (%)	N/A	N/A	N/A	N/A
EBITDA Margin (%)	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A	N/A
BALANCE SHEET				
Fixed Assets	8,419	8,594	30,675	30,917
Intangible Assets	1,678	1,826	3,782	4,038
Tangible Assets	169	270	395	381
Other	6,572	6,498	26,498	26,498
Current Assets	4,118	5,440	6,180	6,220
Stocks	19	100	200	322
Debtors	37	206	400	1,150
Cash	3,764	4,557	5,003	4,171
Other	298	577	577	577
Current Liabilities	(1,305)	(1,707)	(1,785)	(1,885)
Creditors	(316)	(322)	(400)	(500)
Current loans	0	0	0	0
Other	(989)	(1,185)	(1,185)	(1,185)
Long Term Liabilities	(2,890)	(1,913)	(1,713)	(1,513)
Shareholder and other loans	(2,890)	(1,913)	(1,713)	(1,513)
Soft loans	0	0	0	0
Other long term liabilities	0	0	0	0
Net Assets	8,342	10,413	33,357	33,739
CASH FLOW				
Operating Cash Flow	(3,495)	(3,638)	(1,148)	5
Net Interest	(84)	(177)	(30)	0
Tax	0	0	0	0
Capex	(621)	(582)	(776)	(637)
Acquisitions/disposals	0	0	(1,700)	0
Financing net of costs, inc debt conversion	5,923	6,067	5,300	0
Dividends	0	0	0	0
Other	(155)	(877)	(1,950)	(200)
Net Cash Flow	1,568	793	(304)	(832)
Opening net debt/(cash)	608	(874)	(2,644)	(3,290)
HP finance leases initiated	0	0	0	0
Other	(86)	977	950	200
Closing net debt/(cash)	(874)	(2,644)	(3,290)	(2,658)

Source: Edison Investment Research, Sygnis. Note: We have included €500k in cash from Expedeon.

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