Research Report (Anno)

SYGNIS AG

"Significant mid-term revenue and earnings potential expected from in-house distribution of the product pipeline; further products expected to be introduced in 2015/2016"

Target price: 3.75 €

Rating: BUY

IMPORTANT NOTE:
Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section 34b of the Securities Trading Act (WpHG) from page 17

Completion: 07/10/2015 **First Publication: 08/10/2015**

GBC AG Investment Research

SYGNIS AG*4;5a;11

BUY
Price Target: € 3.75

current price 2.60
07/10/2015 / ETR / 12:00 am
currency: EUR

Key date:

ISIN: DE000A1RFM03
WKN: A1RFM0
Ticker symbol: LIO1
Number of shares³: 13.345
Marketcap³: 34.70
EnterpriseValue³: 33.21
³ in m / in EUR m
Freefloat: 42.2 %

Transparency Level:
Prime Standard
Market Segment:
Regulierter Markt
Accounting Standard:
IFRS

Financial year-end: 12/31

Designated Sponsor:
EQUINET

Analyst:

Cosmin Filker
filker@gbc-ag.de

Felix Gode
gode@gbc-ag.de

* catalogue of potential conflicts of interests on page 18

Company profile

Sector: Biotechnology

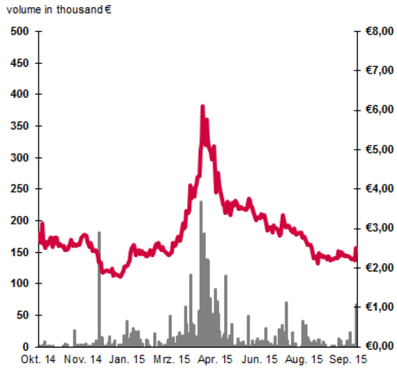
Focus: development and commercialisation of DNA-technologies

Employees: 19 (30/09/2015)

Founded in: 1997

Headquarter: Heidelberg

Executive Board: Pilar de la Huerta



With offices in Heidelberg and Madrid, SYGNIS AG is a life sciences company listed in the Deutsche Börse Group's Prime Standard segment. Based on the new business strategy defined in 2012, the company focuses on the development and marketing of new molecular biological technologies, for example, in the field of DNA amplification (replication) and sequencing (reading). In July 2012, a licence agreement was concluded with Qiagen for the exclusive, international marketing of an improved polymerase for DNA amplification for one of its main products, QualiPhi®. In early 2014, Qiagen began to market this SYNGIS product. Alongside this, marketing began for PrimPol as part of the SYNGIS TruePrime™ product line. A second SYNGIS product line, SunScript™, was also brought onto the market. In addition to its own marketing, SYGNIS AG has concluded a number of non-exclusive distribution partnerships. In addition to Germany, distribution partnerships currently cover Spain, France, Belgium, Canada, the UK, Australia, China, Taiwan, Finland Ireland and Japan, the world's second-largest life science products market. The company is currently focusing on concluding further distribution partnerships and expanding its own marketing.

P&L in EURm \ Due Date	31/12/2014	31/12/2015e	31/12/2016e	31/12/2017e
Revenue	0.39	0.70	2.75	4.80
EBITDA	-2.63	-3.09	-0.56	0.66
EBIT	-3.21	-3.44	-0.82	0.40
Net profit	-3.48	-3.54	-0.98	0.21
Figures in EUR				
Net profit per share	-0.33	-0.27	-0.07	0.02
Dividende per share	0.00	0.00	0.00	0.00
Ratios				
EV/Revenue	84.71	47.44	12.08	6.92
EV/EBITDA	neg.	neg.	neg.	50.31
EV/EBIT	neg.	neg.	neg.	83.02
P/E	neg.	neg.	neg.	165.22
P/B	4.16			

Financial Schedule:
12/11/2015: Financial Report Q3

**last research published by GBC:
Date: publication / price target in € / rating
09/03/2015: RS / 4.05 / BUY
21/01/2015: RS / 4.05 / BUY
15/12.2014: RS / 4.05 / BUY
19.11.2014: RS / 4.05 / BUY
1/9/2014: RS / 4.60 / BUY
** the research reports can be found on our website www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D86150 Augsburg

EXECUTIVE SUMMARY

- In the previous financial year 2014, SYGNIS AG achieved a lower-than-expected revenue of EUR 0.39m (previous year: EUR 0.48m). A significant factor for overall revenue performance remaining below expectations was the so far low revenue contribution from the distribution of QualiPhi®. As part of the out-licensing to Qiagen, the sale of QualiPhi® in 2014 only generated a small amount of revenue and the expected revenue momentum has not materialised.

- As a result, SYGNIS AG realigned its corporate strategy for 2014. While out-licensing of the product pipeline was previously a major focus, the future focus will be on in-house marketing. The aim is to more intensively exploit marketing opportunities and therefore reduce dependencies on licence partners. As such, in the current financial year 2015, the first two of the SYGNIS product families, TruePrime™ and SunScript™, were introduced into the market. In conjunction with its in-house marketing strategy, distribution activities were intensified. In addition to the expansion of its in-house distribution, a range of non-exclusive distribution partnerships were concluded. In addition to Germany, distribution partnerships currently cover Spain, France, Belgium, Canada, the UK, Australia, China, Taiwan, Finland Ireland and Japan, the world's second-largest life science products market.

- Further kits within the first two product families are planned for introduction in the current financial year. Consecutively, new products are being specially developed for the high-volume hospital segment and will also be introduced into the market within the next 12 months. In terms of products, the most significant revenue contributions should be generated from the distribution of TruePrime™, SunScript™ and the new products for the hospital segment. Given a typical preliminary phase of around six months, we forecast a continuously low revenue of EUR 0.70m (previously: EUR 2.06m) for the current financial year 2015. We forecast significant revenue contributions in 2016 (EUR 2.75m) and in 2017 (EUR 4.80m).

- In full-year terms, we expect the operating break-even point (in terms of EBIT) to be achieved in financial year 2017. Generally, we assume a disproportionately low increase in operating costs and a reduction in research expenses and administration costs.

- **Using a DCF model, we have determined a fair value per share of EUR 3.75 (previously: EUR 4.05). Given the current share price of EUR 2.60, there is high upside potential and we have therefore issued a BUY rating.**

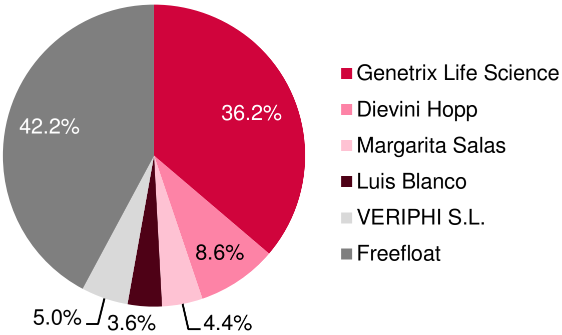
TABLE OF CONTENTS

COMPANY

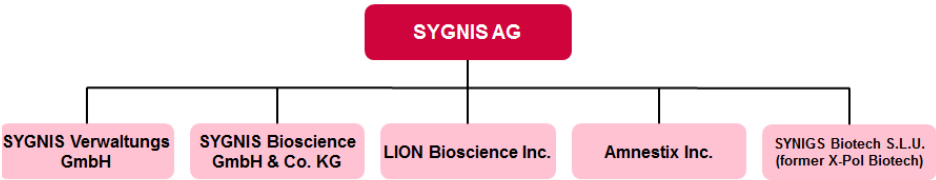
Shareholder structure

Shareholder	in %
Genetrix Life Sciences A.B.	36.2
Dievini Hopp Bio Tech Holding GmbH & Co. KG	8.6
Margarita Salas	4.4
Luis Blanco	3.6
VERIPHI S.L.	5.0
Freefloat	**42.2**

Source: SYGNIS AG; GBC AG



Company structure



Source: SYGNIS AG; GBC AG

The current consolidation scope of SYGNIS AG is represented by five wholly owned subsidiaries, with a regional focus on Heidelberg and Madrid. At both sites, the company has commercial and laboratory premises. Operating activities, and therefore development activities, are currently based in the subsidiaries SYGNIS Biotech S.L.U and SYGNIS Bioscience GmbH & Co. KG.

Products

With TruePrime™, SunScript™ and Qualiphi® the company has three fully developed product families, which are already being marketed. Furthermore, SYGNIS AG is currently developing new products in the field of DNA analysis and sample preparation market. Notably, SYGNIS AG's product development can be carried out more quickly and cost-effectively in comparison to drug development. On average, products are market-ready in 12 months.

TruePrime™

The TruePrime™ product family, based on the enzyme PrimPol, is used to amplify the entire genome from single cells. This is based on multiple displacement amplification (MDA) technology, which requires a smaller initial quantity of DNA than comparable technologies to replicate DNA. In the SYGNIS TruePrime™ product line, this technology has been developed further, doing away with the need for "primers" (which determine the specific DNA section to be amplified) for amplification. This means that the artefacts and distortion usually caused by primers can be completely avoided. The company has stated that the first trials with potential customers were successful, meaning that both acceptance levels and revenue potential are high.

SYGNIS AG began its global marketing of TruePrime™ in January 2015. In addition to marketing through its own channels (website, direct customer contact), marketing partners have been enlisted for the most important regions. In the past few months, an international distribution network has been created through the conclusion of non-exclusive partnerships. In addition to Germany, distribution partnerships currently cover Spain, France, Belgium, Canada, the UK, Australia, China, Finland Ireland and Japan, the world's second-largest life science products market. Further continual expansion of the partner network is planned.

SYGNIS AG can also use the already expanded distribution network to distribute the rest of the product pipeline.

SunScript™

This also applies to the latest product line, SunScript™, which began international distribution in April 2015. This product line comprises a range of kits based on a proprietary reverse transcriptase (RT), one of the most thermostable and fastest commercially available enzymes. Through its ability to translate genetic information from RNA into DNA, a reliable picture of the original genetic information can be obtained. The SunScript™ kits now available on the market are suitable for use in PCR analysis and in the construction of complementary DNA libraries, as required for next-generation sequencing applications, for example.

In combination with TruePrime™, full analyses of RNA can be carried out from small sample quantities and single cells.

After the corporate strategy was adjusted in financial year 2014, with the new focus on marketing SYGNIS' own product pipeline, the focus is now on developing and distributing its own kits, with the aim of quickly increasing revenue. SYGNIS AG customers are largely from the field of life sciences and the clinical environment surrounding human genetics, oncology, molecular diagnostics, personalised medicine and pathology. These customers must be able to generate biological or medical information from the smallest sample quantities.

QualiPhi®

QualiPhi®, a product licensed out to Qiagen, is a proprietary enzyme that is an improved version of phi29 DNA polymerase, allowing a smaller initial quantity of DNA to be used in DNA replication. Using QualiPhi® also saves time and is more efficient. This is particularly advantageous in light of the fact that DNA is only available in small quantities and is therefore not sufficient for diagnostic, forensic or scientific investigations.

This product represents SYGNIS AG's old marketing strategy, which was focused on licensing out the product pipeline. However, as part of this strategy, SYGNIS AG has no influence on the marketing activities of the licence partner and therefore cannot actively influence distribution.

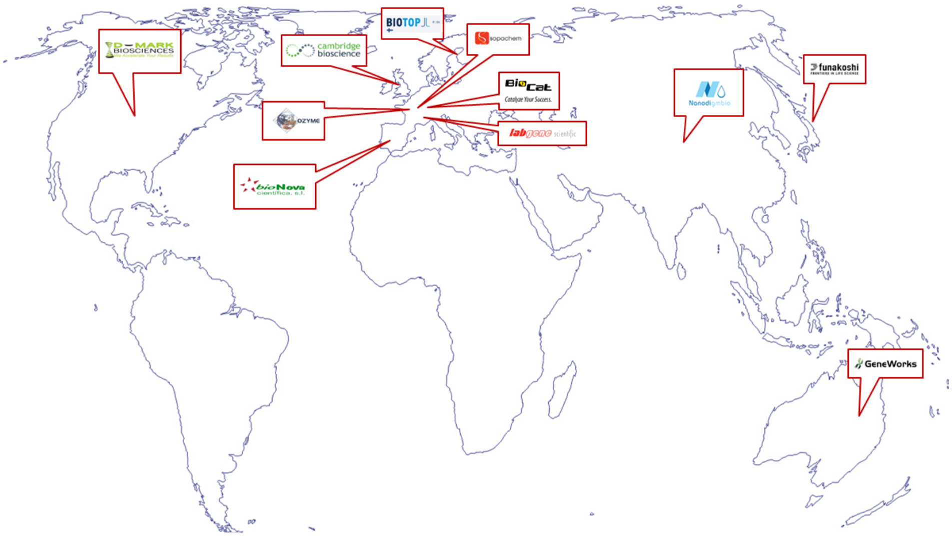
Product launch of SYGNIS AG for the year 2015

Q1 2015	Q2 2015	Q3 2015	Q4 2015
TruePrime™ scWGA Kit	TruePrime™ RCA kits	SunScript™ RT-PCR Kit	SunScript™ RT-PCR Kit - gelified
TruePrime™ WGA Kit	SunScript™ RT RNAseH+		SunScript™ RT-q PCR Kit
	SunScript™ RT RNAseH-		

Source: SYGNIS AG; GBC AG

As a result, in 2014, the company expanded its distribution strategy by introducing in-house marketing. The aim is to more intensively exploit product pipeline marketing opportunities and therefore reduce dependency on licence partners. The global market introduction of the company's first product lines, TruePrime^{TM} and SunScript^{TM}, marked the first steps towards this new strategy.

Global footprint of distribution partnerships



Quelle: SYGNIS AG; GBC AG

MARKET AND MARKET ENVIRONMENT

Today, the range of applications for DNA analysis is extremely diverse, not least due to technological developments and the associated cost advantages. Users of DNA sequencing continue to include stakeholders from the pharmaceutical sector and clinical laboratories focusing on medical applications. Genetic analysis is now also used in other fields, such as in agriculture or the chemical manufacture of customer goods. Consequently, the long-term potential of SYGNIS technology is not limited to one sector, despite the fact that applications in medical research and diagnostics may continue to predominate.

Personalised medicine is a key driver here, along with the associated biomarker identification. Market growth is based on improving the practicality of DNA amplification and sequencing. With new sequencing techniques, it is now possible to sequence the human genome at reasonable costs and in less time. While in September 2001 sequencing a genome cost an illusory USD 95m, in July 2014, the cost was around USD 4,900. This massive, technology-driven, progressive cost reduction has allowed gene analysis to be used on an industrial scale and has therefore opened up new revenue sources.

Biomarkers can help to reveal the individual genetic features of a patient that lead to the development of an illness. Reading a patient's genetic information using DNA sequencing plays a vital role in this. This genetic data is then used as a basis for patient-specific and individualised therapy. The increasing significance of personalised medicine is particularly evident from the use of biomarkers in clinical trials that undertake research into personalisation. Between 1990 and 2005, the proportion of studies involving biomarkers increased from 4.0% to 20.0% (source: Medizinische Biotechnologie in Deutschland (Medical Biotechnology in Germany) 2011, BCG report). There is a particular focus on the field of oncology, in which over one-third of trials are conducted using biomarkers.

The main benefit of personalised medicine lies in the fact that therapy is highly individual, meaning that the patient is generally more responsive to treatment. By recognising and eliminating incompatibilities early, therapy is more efficient (prevention of serious disease progression, fewer side effects, prevention of further measures and staff costs), which consequently leads to improved efficiency and therefore cost savings in the health system. The field of DNA sequencing in particular is also set to benefit from this, even if it is only a subfield. This technological advancement is especially likely to open up new market segments for DNA sequencing providers.

With its product range, SYGNIS AG operates in a market environment that is set to experience high rates of growth from the medical field alone. New applications for DNA sequencing and DNA amplification should also provide additional growth.

DEVELOPMENT OF THE COMPANY & FORECAST

Overview of the figures

P&L (in million €)	FY 2013	FY 2014	FY 2015e	FY 2016e	FY 2017e
Revenue	0.48	0.39	0.70	2.75	4.80
Distribution expenses	-0.37	-0.44	-0.72	-0.75	-1.05
Administrative expenses	-1.76	-1.49	-1.78	-1.31	-1.62
Research & Development	-2.23	-1.41	-1.29	-1.40	-1.62
Amortisation	-0.59	-0.28	-0.35	-0.26	-0.26
Other operating result	0.18	0.03	0.00	0.15	0.15
EBIT	**-4.28**	**-3.21**	**-3.44**	**-0.82**	**0.40**
Financial expenses	-0.18	-0.16	-0.10	-0.09	-0.11
Financial income	0.01	0.02	0.00	0.00	0.00
Profit before taxes	**-4.45**	**-3.35**	**-3.54**	**-0.91**	**0.29**
Income Taxes	1.25	-0.14	0.00	0.00	-0.08
Net profit	**-3.20**	**-3.48**	**-3.54**	**-0.91**	**0.21**
EBITDA	-3.40	-2.63	-3.09	-0.56	0.66
EBITDA-margin	*neg.*	*neg.*	*neg.*	*neg.*	*13.8%*
EBIT	-4.28	-3.21	-3.44	-0.82	0.40
EBIT-margin	*neg.*	*neg.*	*neg.*	*neg.*	*8.3%*
Earnings per share in €	-0.34	-0.33	-0.27	-0.07	0.02
Number of shares in million	9.51	13.30	13.35	13.35	13.35

Source: SYGNIS AG; GBC AG

Business development FY 2014

in million €	FY 2012	FY 2013	FY 2014
Revenue	0.21	0.48	0.39
EBITDA	-1.35	-3.40	-2.63
EBIT	-2.35	-4.28	-3.21
Net profit	-2.40	-3.20	-3.48
EPS in €	-0.32	-0.34	-0.33

Source: SYGNIS AG; GBC AG

In the last financial year 2014, SYGNIS AG's revenue fell further, standing at EUR 0.39m (last year: EUR 0.48m). The original corporate revenue forecasts published in the 2013 annual report of EUR 2.0m – EUR 2.5m have, therefore, not been achieved. During the year, SYGNIS AG had already revised its revenue forecast to EUR 0.5m - EUR 0.7m.

Continuously low revenue from the distribution of QualiPhi® is a determining factor in this lower-than-expected revenue performance. In February 2014, the company announced that the QualiPhi® distribution partner Qiagen had introduced the first two kits onto the market. A total of only EUR 15,000 was generated from the distribution of both kits, the REPLI-g WTA Single Cell Kit and REPLI-g Cell WGA & WTA Kit. Consequently, the key revenue drivers previously defined in the last financial year 2014 are yet to deliver any significant boost.

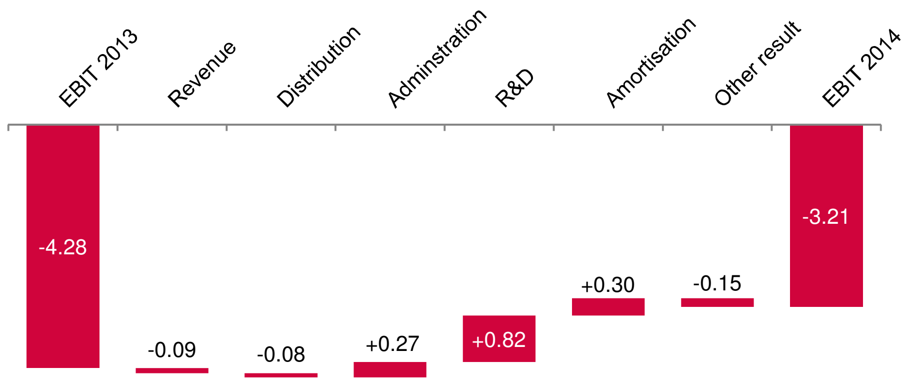
The main portion of revenue therefore continues to come from licence revenue associated with Caco-2 in the amount of EUR 0.30m (previous year: EUR 0.21m). Furthermore, SYGNIS AG collected advance payments associated with the transfer of certain Double Switch technology patents to SYSTASY Bioscience GmbH in the amount of EUR 55,000.

Due to lower-than-expected sales from the out-licensing of QualiPhi®, the company decided to realign its corporate strategy. The focus is now on marketing the product pipeline in-house with the aim of more intensively exploiting marketing opportunities. As such, two SYGNIS product lines, TruePrime™ and SunScript™, were introduced to the market in 2015.

This change in strategy, with a stronger focus on in-house distribution and a simultaneous reduction of fundamental research, can be seen in the change in operating costs. The fall in R&D expenses to EUR 1.41m (previous year: EUR 2.23m) in particular illustrates this new direction. With otherwise very minor changes to other cost positions, the operating cost base was significantly reduced to a total of EUR 3.60m (previous year: EUR 4.77m).

In the last financial year, a lower impairment requirement of EUR 0.28m (previous year: EUR 0.59m) was determined. This is associated with Double Switch technology, of which the current business forecasts lie below previous projections. In total, the lower cost base allowed for lower EBIT losses than last year, at EUR -3.21m (previous year: EUR -4.58m).

EBIT-Bridge (in million €)



Source: SYGNIS AG; GBC AG

In line with expectations, revenue was not yet sufficient to cover the operating cost base, leading to a corresponding negative EBIT margin. This is also reflected in negative post-tax earnings, which, at EUR -3.48m (previous year: EUR -3.20m) were below last year's value. The lower net result for the period, compared to the previous year, is due to first-time tax expenses of EUR -0.14m (previous year: tax revenue of EUR 1.25m). These are associated with the liquidation of deferred tax assets.

Business development 1.HY 2015

in million €	1.HY 2013	1.HY 2014	1.HY 2015
Revenue	0.32	0.16	0.20
EBITDA	-1.87	-1.38	-1.64
EBIT	-2.04	-1.53	-1.88
Net profit	-2.04	-1.58	-1.91

Source: SYGNIS AG; GBC AG

The first six months of the current financial year 2015 were heavily influenced by the introduction of the two proprietary product lines TruePrime™ and SunScript™ and the associated development of distribution structures. SYGNIS AG was able to secure a number of non-exclusive distribution partnerships for the TruePrime™ product family, with the aim of entering the most important international markets. As both product families are still at the start of the marketing cycle, in the first half of 2015, 102 kits were sold, subject to heavy discounts as part of their market introduction. As such, they generated a low revenue of EUR 0.20m (1st half 2014: EUR 0.16m), as expected.

As in financial year 2014, SYGNIS AG pushed distribution activities and simultaneously reduced research and development activities as part of the new corporate strategy. In total, the company posted an increase in operating expenses to EUR 2.07m (1st half 2014: EUR 1.69m) and correspondingly, with an almost unchanged revenue base, posted a slightly higher loss based on EBIT of EUR -1.88m (1st half 2014: EUR -1.53m). However, non-recurring extraordinary expenses associated with employee severance pay and the move to the new site in Heidelberg Wieblingen of EUR 0.20m must be borne in mind here. As such, SYGNIS AG achieved an adjusted EBIT of EUR -1.67m.

Financial Situation as at 30/06/2015

in million €	30/06/2014	31/12/2014	30/06/2015
Shareholder's capital	5.43	8.34	6.50
Equity ratio (in %)	*54.1%*	*66.5%*	*63.2%*
Liquid assets	0.80	3.76	1.28
Operating assets	1.95	1.86	1.94
Working capital	-1.20	-0.95	-0.37
Net Debt	1.26	-1.49	1.01
Operating Cashflow	-1.98	-.358	-2.18
Investment - Cashflow	-0.26	-0.62	-0.58
Financing - Cashflow	0.84	5.44	0.04

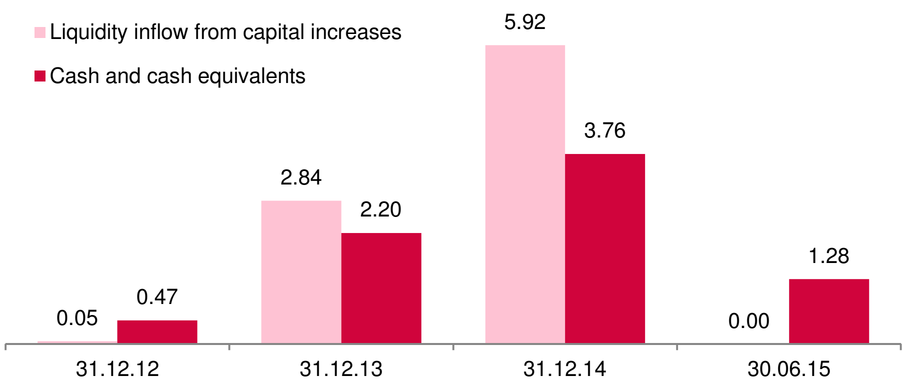
Source: SYGNIS AG; GBC AG

An analysis of liquidity is particularly important considering that SYGNIS product sales are still low and therefore marketing revenue is also low. As at 30.06.2015, SYGNIS AG holds cash and cash equivalents of EUR 1.28m, a significant reduction compared to holdings as at the end of financial year 2014 of EUR 3.76m. This development is due both to the continued lack of contribution to revenue from operating business and the slight rise in net current assets and the associated capital. Furthermore, SYGNIS AG also incurred extraordinary expenses for employee severance pay and the move to a new site.

According to information provided in the semi-annual financial statements, the available cash and cash equivalents as at 30.06.2015 and the expected cash inflow for the remainder of 2015.

This is accompanied by the company strategy, according to which the liquidity base was expanded, primarily as part of capital increases, until break-even is achieved. For the previous financial year 2014, net issue proceeds from capital increases totalled EUR 5.92m, originating mainly from a successful capital increase undertaken in December 2014 through the issue of 2.48m new shares at a subscription price of EUR 2.00 per share. SYGNIS AG also took advantage of the existing SEDA agreement in several tranches, issuing a total of 0.34m shares to YA Global Master SPV LTD, representing a liquidity inflow of around EUR 1.5m.

Capital increases and liquidity holdings (in EUR million)



Source: SYGNIS AG; GBC AG

VALUATION

Forecast and model assumptions

Income statement (in EUR million)	FY 2015e	FY 2016e	FY 2017e
Revenue	0.70	2.75	4.80
EBITDA	-3.09	-0.56	0.66
EBITDA margin	*neg.*	*neg*	*13.8%*
EBIT	-3.44	-0.81	0.40
EBIT margin	*neg*	*neg*	*8.3%*
Annual net profit	-3.54	-0.91	0.21
EPS in EUR	-0.27	-0.07	0.02

Source: GBC AG

The corporate strategy adapted in 2014 to re-focus on in-house marketing of the product pipeline is an important factor in our forecasts presented below. The main goal of this strategy is to better exploit marketing opportunities independently, and simultaneously reduce dependence on licence partners. Associated with this is the necessity to develop and expand the distribution structure, which we believe is a critical component for the company's future success.

As part of this, SYGNIS AG has recently focused its activities mainly on distribution and has already seen positive results. The first and foremost of these is the conclusion of a number of distribution partnerships, providing wide regional coverage ahead of schedule. In addition to Germany, distribution partnerships currently cover Spain, Australia, Switzerland, France, Belgium, Canada (North America), the UK, China, Taiwan, Finland, Ireland and Japan (the world's second-largest life science products market). Since these are non-exclusive partnerships, SYGNIS AG is able to expand distribution to further regions.

Alongside this, SYGNIS AG is also pushing distribution of the product pipeline through its own channels (website, direct customer contact, specialist conferences, etc.). As such, the appointment of Dr. Miguel-Antonio Viribay as new Vice President of Sales and Marketing was announced in April 2015. He is responsible for the further development and implementation of sales strategies. Dr. Viribay has over 16 years' experience in the biotechnology sector and has held management positions in the fields of sales and marketing at southern European branches of leading American companies.

SYGNIS AG's product pipeline forms the basis for successful distribution. Key to this is the short development time of the products, due to the fact that they do not have to undergo any clinical tests and can therefore be quickly marketed. Fast expansion and rapid innovation and development of the product pipeline is therefore realistic. As these SYGNIS products are consumer goods for the laboratory and testing industry, they are not subject to any regulatory risks.

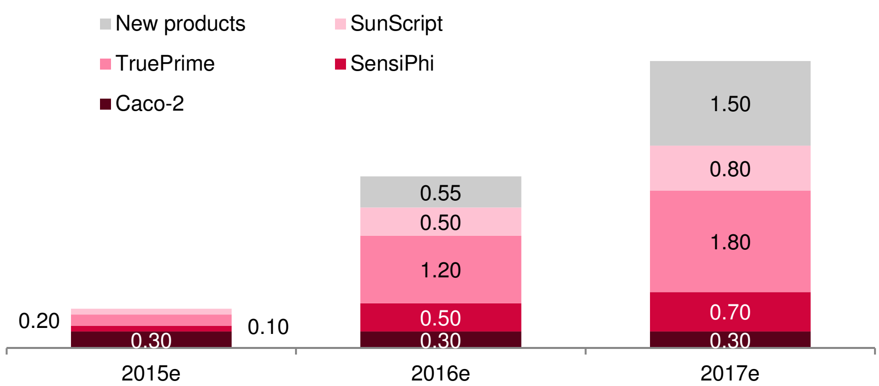
Within the first two product lines launched in 2015, TruePrime™ and SunScript™, SYGNIS AG has already introduced three kits to the market. Further kits are set to be introduced in financial year 2015 to cover further segments of the rapidly growing DNA amplification and DNA sequencing market. Fundamental research will generally be scaled back, since key products have already been developed to market maturity. However, SYGNIS AG has stated that it will continue to constantly seek market opportunities and develop new products.

One of SYGNIS AG's short to long-term goals is to tap into the significantly better market opportunities in the hospital segment. The current product portfolio is mainly aimed at laboratories and research institutes. The use of DNA tools has now opened up to the mass market, with increased demand expected from the hospital segment (personalised medicine, preventative measures). With access to the hospital sector, significantly higher sales, and therefore revenue, is possible. We are planning with the introduction of a corresponding SYGNIS product line in late 2015/early 2016.

Sales forecasts

With the publication of its 2015 semi-annual report, SYGNIS AG confirmed its revenue forecast (EUR 0.5m – 0.7m) stated in its 2014 annual report for the current financial year 2015. While the expected low revenue in 2015 reflects the fact that the product pipeline marketing cycle is still in the early stage, significant revenue increases are expected in the coming financial year 2016. The company has stated that customer interest is increasing for the two product families, TruePrime™ and SunScript™, and that customer feedback is also positive. A new product in this field typically requires an interim period of around six months before any sales boost. Furthermore, we forecast increasing revenue contributions from the marketing of QualiPhi® by licence partner Qiagen, although we predict lower revenue than previously assumed.

Sales forecasts (in EUR million)



Source: GBC AG

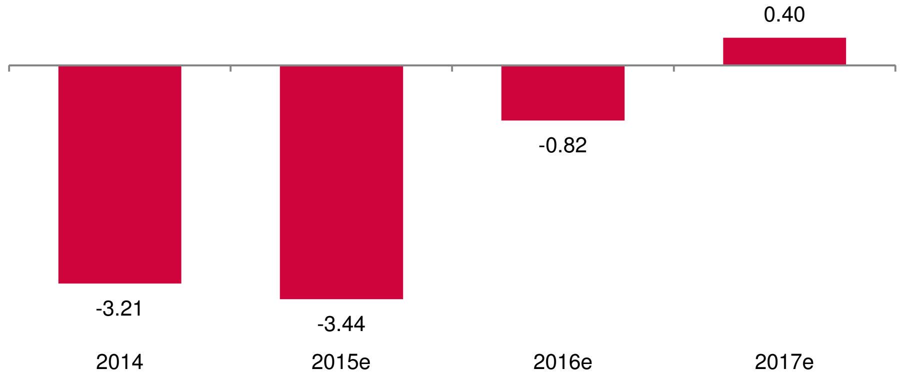
The key revenue driver for the coming financial year 2016 is likely to be the distribution of TruePrime™ technology, in connection with the distribution of SunScript™. We expect SYGNIS to enter the hospital segment through a new product line from 2016; however, significant contributions to revenue are not likely to be made until financial year 2017 after an interim period of six months. We forecast the total revenue for financial year 2016 to be EUR 2.75m, and EUR 4.80m for financial year 2017.

We have therefore significantly revised down our previous forecasts (see research report dated 21.01.2015). This is due to both the low revenue prospects for QualiPhi® and the revised corporate strategy with its focus on in-house marketing. Until now, we had primarily based our revenue forecasts on the strategy of licensing out the product pipeline, assuming corresponding upfront fees (income from out-licensing). There are no upfront fees in the case of in-house product pipeline marketing.

Earnings forecasts

In the first six months of 2015, although SYGNIS AG did implement a reduction of research and development expenses, distribution expenses increased. Furthermore, the company incurred non-recurring expenses of EUR 0.20m, leading to operating costs totalling EUR 2.07m. For the whole of 2015, we estimate operating costs of EUR 4.14m. With an expected revenue of EUR 0.70m, we therefore do not expect the operating break-even point to be reached. On a full-year basis, positive earnings are not expected to be achieved until financial year 2017, with a forecast EBIT of EUR 0.40m.

EBIT forecasts (in EUR million)



Source: GBC AG

Our DCF valuation model is based on our EBIT forecast. In the mid to long term, SYGNIS AG should be able to achieve an EBIT margin of well over 50.0%. This is due to its highly scalable business model.

Model assumptions

We rated SYGNIS AG using a three-stage DCF model. Starting with the concrete estimations for 2015, 2016 and 2017 in phase 1, in the second phase, from 2018 to 2022, our forecast uses value drivers. Here we expect a revenue increase of 15.0%. We have assumed an EBITDA margin target of 60.0%. We have taken a tax rate of 15.0% into account due to the outstanding losses carried forward in phase 2. Additionally, a residual value is determined in the third phase by using the perpetual annuity by the end of the forecast horizon. As the final value, we assume a growth rate of 3.0%.

Determination of capital costs

The weighted average cost of capital (WACC) of SYGNIS AG is calculated using equity costs and debt costs. The market premium, the company-specific beta, as well as the risk-free interest rate have to be determined in order to determine the equity cost.

Note: Since 28.01.2015, we have no longer been using the interest rate on ten-year government bonds (with a minimum interest rate of 2.0%) to determine the risk-free interest rate, but have instead switched to a new methodology.

The risk-free interest rate is now derived in accordance with the recommendations of the expert committee for company valuations and business administration (FAUB) of the IDW (Institut der Wirtschaftsprüfer in Deutschland e.V.) from the current interest rate yield curves for risk-free bonds. The zero bond interest rates according to the Svensson method published by the German Federal Bank form the underlying basis. To smooth out short-term market fluctuations, we use the average yields over the previous three months and round up the result to 0.25 basis points. **The value of the currently used risk-free interest rate is 1.50% (previously: 2.00%).**

We set the historical market premium of 5.50% as a reasonable expectation of the market premium. This is supported by historical analyses of stock market returns. The market premium reflects by which percentage the stock market is expected to be more profitable than the low-risk government bonds.

According to GBC estimates, we have determined a beta of 1.76 (previously: 1.76).

Based on these assumptions, equity costs are calculated to amount to 11.20% (previously: 11.70%) (beta multiplied by the risk premium plus the risk-free interest rate). Since we assume a sustainable weighting of the equity costs of 85%, the resulting weighted average costs of capital (WACC) amount to 10.31% (previously: 10.74%).

Evaluation results

The discounting of future cash flows is based on the entity approach. In our calculation, the result for the corresponding weighted average costs of capital (WACC) is 10.31%. The resulting fair value per share at the end of the 2015 financial year corresponds to the stock price target of EUR 3.75. We have therefore reduced our previous price target of EUR 4.05. This price target reduction is due exclusively to the reduction of revenue and earnings forecasts carried out as part of this study as a result of the deferment of marketing revenue.

DCF-Model

SYGNIS AG - Discounted Cashflow (DCF) model scenario

Value driver of the DCF - model after the estimate phase:

consistency - phase	
Revenue growth	15.0%
EBITDA-Margin	62.0%
Depreciation to fixed assets	8.7%
Working Capital to revenue	7.0%

final - phase	
Eternal growth rate	3.0%
Eternal EBITA - margin	62.9%
Effective tax rate in final phase	27.0%

three phases DCF - model:

phase	**estimate**			**consistency**					**final**
in €m	FY 15e	FY 16e	FY 17e	FY 18e	FY 19e	FY 20e	FY 21e	FY 22e	**value**
Revenue	0.70	2.75	4.80	7.16	8.23	9.46	10.88	12.50	
Revenue change	78.6%	292.9%	74.5%	15.0%	15.0%	15.0%	15.0%	15.0%	3.0%
Revenue to fixed assets	0.32	1.02	1.57	1.57	1.57	1.57	1.57	1.57	
EBITDA	-3.09	-0.56	0.66	4.44	5.10	5.87	6.74	7.75	
EBITDA-Margin	-441.4%	-20.4%	13.8%	62.0%	62.0%	62.0%	62.0%	62.0%	
EBITA	-3.44	-0.82	0.40	4.17	4.71	5.41	6.22	7.15	
EBITA-Margin	-491.4%	-29.6%	8.3%	58.3%	57.2%	57.2%	57.2%	57.2%	62.9%
Taxes on EBITA	0.00	0.00	-0.03	-0.63	-0.71	-0.81	-0.93	-1.07	
Taxes to EBITA	0.0%	0.0%	7.0%	15.0%	15.0%	15.0%	15.0%	15.0%	27.0%
EBI (NOPLAT)	-3.44	-0.82	0.37	3.55	4.00	4.60	5.29	6.08	
Return on capital	-377.6%	-40.8%	12.8%	105.9%	79.2%	79.2%	79.2%	79.2%	67.0%
Working Capital (WC)	-0.20	0.20	0.30	0.50	0.58	0.66	0.76	0.88	
WC to revenue	-28.6%	7.3%	6.3%	7.0%	7.0%	7.0%	7.0%	7.0%	
Investment in WC	-0.75	-0.40	-0.10	-0.20	-0.07	-0.09	-0.10	-0.11	
Operating fixed assets (OAV)	2.20	2.70	3.05	4.55	5.23	6.01	6.91	7.94	
Depreciation on OAV	-0.35	-0.26	-0.26	-0.26	-0.39	-0.45	-0.52	-0.60	
Depreciation to OAV	15.9%	9.4%	8.5%	8.7%	8.7%	8.7%	8.7%	8.7%	
Investment in OAV	-0.69	-0.76	-0.61	-1.76	-1.07	-1.24	-1.42	-1.63	
Capital employed	2.00	2.90	3.35	5.05	5.81	6.67	7.67	8.82	
EBITDA	-3.09	-0.56	0.66	4.44	5.10	5.87	6.74	7.75	
Taxes on EBITA	0.00	0.00	-0.03	-0.63	-0.71	-0.81	-0.93	-1.07	
Total investment	-1.44	-1.16	-0.71	-1.97	-1.15	-1.32	-1.52	-1.75	
Investment in OAV	-0.69	-0.76	-0.61	-1.76	-1.07	-1.24	-1.42	-1.63	
Investment in WC	-0.75	-0.40	-0.10	-0.20	-0.07	-0.09	-0.10	-0.11	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free cashflows	-4.53	-1.72	-0.08	1.85	3.25	3.73	4.29	4.93	77.25

Value operating business (due date)	47.97	54.63
Net present value explicit free Cashflows	9.10	11.75
Net present value of terminal value	38.87	42.88
Net debt	2.78	4.59
Value of equity	45.19	50.04
Minority interests	0.00	0.00
Value of share capital	45.19	50.04
Outstanding shares in m	13.35	13.35
Fair value per share in €	3.39	**3.75**

Cost of capital:

Risk free rate	1.5%
Market risk premium	5.5%
Beta	1.76
Cost of equity	11.2%
Target weight	85.0%
Cost of debt	7.0%
Target weight	15.0%
Taxshield	25.0%
WACC	**10.3%**

Return on capital	**WACC**				
	9.3%	**9.8%**	**10.3%**	**10.8%**	**11.3%**
65.0%	4.35	3.97	3.65	3.37	3.13
66.0%	4.41	4.03	3.70	3.42	3.17
67.0%	4.47	4.08	**3.75**	3.46	3.21
68.0%	4.53	4.14	3.80	3.51	3.26
69.0%	4.59	4.19	3.85	3.56	3.30

ANNEX

Section 1 Disclaimer and exclusion of liability

This document is intended solely for information purposes, All data and information in this study come from sources that GBC regards as reliable, In addition, the authors have taken every care to ensure that the facts and opinions presented here are appropriate and accurate, Nevertheless, no guarantee or liability can be accepted for their correctness – whether explicitly or implicitly, In addition, all information may be incomplete or summarised, Neither GBC nor the individual authors accept liability for any damage which may arise as the result of using this document or its contents, or in any other way in this connection,

We would also point out that this document does not constitute an invitation to subscribe to nor to purchase any securities and must not be interpreted in this way, Nor may it nor any part of it be used as the basis for a binding contract of any kind whatsoever, or be cited as a reliable source in this context, Any decision relating to the probable offer for sale of securities for the company or companies discussed in this publication should be taken solely on the basis of information in the prospectuses or offer documents which are issued in relation to any such offer,

GBC does not provide any guarantee that the indicated returns or stated target prices will be achieved, Changes to the relevant assumptions on which this document is based can have a material impact on the targeted returns, Income from investments is subject to fluctuations, Investment decisions should always be made with the assistance of an investment advisor, This document cannot replace the role of an advisor,

Sale outside the Federal Republic of Germany:

This publication, if sold in the UK, may only be made available to those persons who, in the meaning of the Financial Services Act 1986 are authorised and exempt, or persons as defined in section 9 (3) of the Financial Services Act 1986 (Investment Advertisement) (Exemptions) Decree 1988 (amended version) and must not be transmitted directly or indirectly to other persons or groups of persons,

Neither this document nor any copy of it may be taken into, transferred to or distributed within the United States of America or its territories and possessions, The distribution of this document in Canada, Japan or other jurisdictions may be restricted by law, and persons who come into possession of this publication should find out about any such restrictions and respect them, Any failure to respect these restrictions may represent a breach of the US, Canadian or Japanese securities laws or laws governing another jurisdiction,

By accepting this document you accept all disclaimers of liability and the restrictions cited above,

You can find the details of this disclaimer/exclusion of liability at:
http://www,gbc-ag,de/de/Disclaimer,htm

Legal information and disclosures as required by section 34b para, 1 of Securities Trading Act (WpHG) and Financial Analysis Directive (FinAnV)

This information can also be found on the internet at the following address::
http://www,gbc-ag,de/de/Offenlegung,htm

Section 2 (I) Updates

A detailed update of the present analysis/analyses at any fixed date has not been planned at the current time, GBC AG reserves the right to update the analysis without prior notice,

Section 2 (II) Recommendation/ Classifications/ Rating

Since 1/7/2006 GBC AG has used a 3-level absolute share rating system, Since 1/7/2007 these ratings relate to a time horizon of a minimum of 6 to a maximum of 18 months, Previously the ratings related to a time horizon of up to 12 months, When the analysis is published, the investment recommendations are defined based on the categories described below, including reference to the expected returns, Temporary price fluctuations outside of these ranges do not automatically lead to a change in classification, but can result in a revision of the original recommendation,

The recommendations/ classifications/ ratings are linked to the following expectations:

BUY	The expected return, based on the derived target price, incl, dividend payments within the rel 10 %,
HOLD	The expected return, based on the derived target price, incl, dividend payments within the rel 10 % and < + 10 %,
SELL	The expected return, based on the calculated target price, incl, dividend payments within the <= - 10 %,

GBC AG's target prices are determined using the fair value per share, derived using generally recognised and widely used methods of fundamental analysis, such as the DCF process, peer-group benchmarking and/or the sum-of-the-parts process, This is done by including fundamental factors such as e,g, share splits, capital reductions, capital increases, M&A activities, share buybacks, etc,

Section 2 (III) Past recommendations
Past recommendations by GBC on the current analysis/analyses can be found on the internet at the following address:
http://www,gbc-ag,de/de/Offenlegung,htm

Section 2 (IV) Information basis
For the creation of the present analysis/analyses publicly available information was used about the issuer(s) (where available, the last three published annual and quarterly reports, ad hoc announcements, press releases, share prospectuses, company presentations, etc,) which GBC believes to be reliable, In addition, discussions were held with the management of the company/companies involved, for the creation of this analysis/these analyses, in order to review in more detail the information relating to business trends,

Section 2 (V) 1, Conflicts of interest as defined in section 34b para, 1 of the Securities Trading Act (WpHG) and Financial Analysis Directive (FinAnV)
GBC AG and the analysts concerned hereby declare that the following potential conflicts of interest exist for the company/companies described, at the time of this publication, and in so doing meet the requirements of section 34b of the Securities Trading Act (WpHG), A detailed explanation of potential conflicts of interest is also listed in the catalogue of potential conflicts of interest under section 2 (V) 2,

In relation to the security or financial instrument discussed in this analysis the following possible conflict of interest exists: (4;5a;11)

section 2 (V) 2, Catalogue of potential conflicts of interest
(1) GBC AG or a legal person connected to them holds shares or other financial instruments of this company at the time of publication,
(2) This company holds over 3 % of the shares in GBC AG or a legal person connected to them,
(3) GBC AG or a legal person connected to them is a market maker or designated sponsor for the financial instruments of this company,
(4) GBC AG or a legal person connected to them has, over the previous 12 months, organised or played a leading role in the public issue of financial instruments for this company,
(5) a) GBC AG or a legal person connected to them has over the last 12 months agreed to create research reports for this company in return for payment, As part of this agreement the issuer was shown the draft of this analysis (excluding the evaluation section) prior to publication,
(5) b) After receiving valid amendments by the analysed company, the draft of this analysis was changed,
(6) a) GBC AG or a legal person connected to them has over the last 12 months agreed with a third party to create research reports about this company in return for payment, As part of this agreement the issuer was shown the draft of this analysis (excluding the evaluation section) prior to publication,
(6) b) After receiving valid amendments by the third party, the draft of this analysis was changed,
(7) The analyst responsible for this report holds shares or other financial instruments of this company at the time of publication,
(8) The analyst responsible for this company is a member of the company's Executive Board or Supervisory Board,
(9) The analyst responsible for this report received or purchased shares in the company analysed by said analyst, prior to the time of publication,
(10) GBC or a related legal party has closed an agreement with the underlying company regarding consulting services during the previous 12 months,
(11) GBC or a related legal party has a significant financial interest in the analysed company, for example to get mandated by the analysed company or to provide any kind of services (like the organization of fair, roundtables, road shows etc,),

Section 2 (V) 3, Compliance

GBC has defined internal regulatory measures in order to prevent potential conflicts of interest arising or, where they do exist, to declare them publicly, Responsibility for the enforcement of these regulations rests with the current Compliance Officer, Susanne Klebl, Email: klebl@gbc-ag,de

Section 2 (VI) Responsibility for report

The company responsible for the creation of this/these analysis/analyses is GBC AG, with registered office in Augsburg, which is registered as a research institute with the responsible supervisory authority (Federal Financial Supervisory Authority or BaFin, Lurgiallee 12, 60439 Frankfurt, Germany),

GBC AG is currently represented by its board members Manuel Hölzle (Chairman), Jörg Grunwald and Christoph Schnabel,

The analysts responsible for this analysis are:
Cosmin Filker, Dipl. Betriebswirt (FH), Finanzanalyst
Felix Gode, CFA, Dipl. Wirtschaftsjurist (FH), stellvertr. Chefanalyst

Other person involved:
Manuel Hölzle, Dipl. Kaufmann, Chefanalyst

Section 3 Copyright

GBC AG
Halderstraße 27
D 86150 Augsburg
Tel,: 0821/24 11 33-0
Fax,: 0821/24 11 33-30
Internet: http://www,gbc-ag,de

E-Mail: compliance@gbc-ag,de

GBC AG®

- R E S E A R C H & I N V E S T M E N T A N A L Y S E N -

GBC AG
Halderstraße 27
86150 Augsburg
Internet: http://www.gbc-ag.de
Fax: ++49 (0)821/241133-30
Tel.: ++49 (0)821/241133-0
Email: office@gbc-ag.de