GBC AG
Investment Research

Research Report (Update)

SYGNIS AG

SYGNIS

"Product launch plan fulfilled; sales network expanded; capital increase significantly improves financial scope for further sales expansion"

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 14**

Completion: 20/11/2015 **First Publication: 20/11/2015**

SYGNIS AG*4;5a;5b;6a;10;11

BUY
Price Target: € 3.75

current price 1.95
19/11/2015 / ETR / 5:00 pm
currency: EUR

Key date:

ISIN: DE000A1RFM03
WKN: A1RFM0
Ticker symbol: LIO1
Number of shares³: 13.495
Marketcap³: 26.32
EnterpriseValue³: 24.83
³ in m / in EUR m
Freefloat: 42.8 %

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

Financial year-end: 12/31

Designated Sponsor:
EQUINET

Analyst:

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filker@gbc-ag.de

Felix Gode, CFA
gode@gbc-ag.de

* catalogue of potential conflicts of interests on page 15

Company profile

Sector: Biotechnology

Focus: development and commercialisation of DNA-technologies

Employees: 21 (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	63.33	35.47	09.03	5,17
EV/EBITDA	neg.	neg.	neg.	37.62
EV/EBIT	neg.	neg.	neg.	62.07
P/E	neg.	neg.	neg.	125.31
P/B	3.15			

Financial Schedule:
08/12/2015: 20th MKK - Munich
23/11/15: Eigenkapitalforum Frankfurt

**last research published by GBC:
Date: publication / price target in € / rating
08/10/2015: RS / 3.75 / BUY
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

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EXECUTIVE SUMMARY

- In its 2015 nine-month report, SYGNIS AG presented figures that were within our expectations. The continued low revenue level of €0.31m (9M/14: €0.30m) reflects the fact that its two most important product lines, TruePrime™ and SunScript™, are still in the early marketing phase. Both product lines were only globally launched in the current financial year 2015, meaning, that they first have to go through a typical lead time.

- Based on the continued low revenue contributions, despite a recorded increase in kits sold to 149 in Q3 2015 (1 HY 2015: 102), in the nine-month figures for 2015, SYGNIS AG still posted a negative EBIT of -€2.71m (9M/14: €-2.27m), as expected. This includes extraordinary expenses related to the optimisation of administrative structures (reduction of workforce, relocation within Heidelberg and transformation of Heidelberg into a production site) totalling €0.36m. Without extraordinary effects, SYGNIS AG would have achieved near constant development of the EBIT (adjusted EBIT: -€2.35m).

- In the period under review, SYGNIS AG therefore focused on launching its two new product lines and expanding its sales network, as an important component of its own sales. With the launch of five kits within the two product lines, the company fulfilled its product launch plan. In addition to Germany, the products are currently also being sold in Spain, France, Belgium, Canada, the UK, Australia, China, Finland, Ireland, Switzerland, Taiwan and Japan. They can also be purchased directly from the newly established online shop.

- A further important aspect is SYGNIS AG's cash position, given the continued low revenues and the associated negative cash flow. As at 30/09/2015, the company's cash position totals €0.61m (31/12/14: €3.76m) and will significantly increase following a successful capital increase. By issuing 3.86m new shares at a subscription price of €1.90 per share (7:2 subscription ratio), the company aims to increase its equity by €7.33m. The company aims to use the cash proceeds primarily to finance operating business until break-even is achieved, at the latest on 31 December 2017. Furthermore, SYGNIS AG plans to partially repay promotional loans and retain liquidity to increase financial flexibility.

- We have not changed our last published forecasts (see the research study dated 08/10/2015) and therefore have not yet included the currently ongoing capital increase (pre-money). After completion of the capital increase, we will update our forecast planning to include the cash proceeds.

- **In view of these unchanged forecasts, we reaffirm the price target calculated as part of the DCF valuation model of €3.75 per share (pre-money) as at the end of financial year 2016. Based on the current price level, our previously issued BUY rating remains unchanged.**

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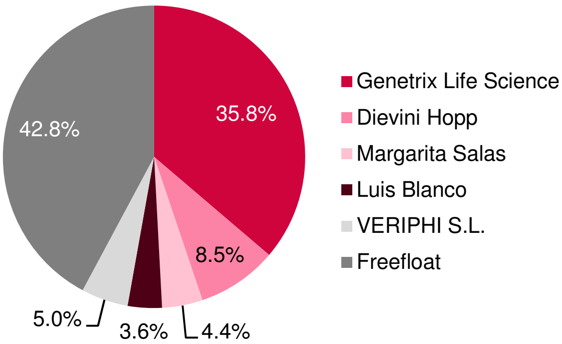
COMPANY

Shareholder structure

Shareholder	in %
Genetrix Life Sciences A.B.	35.8
Dievini Hopp Bio Tech Holding GmbH & Co. KG	8.5
Margarita Salas	4.4
Luis Blanco	3.6
VERIPHI S.L.	5.0
Freefloat	**42.8**

Source: SYGNIS AG; GBC AG

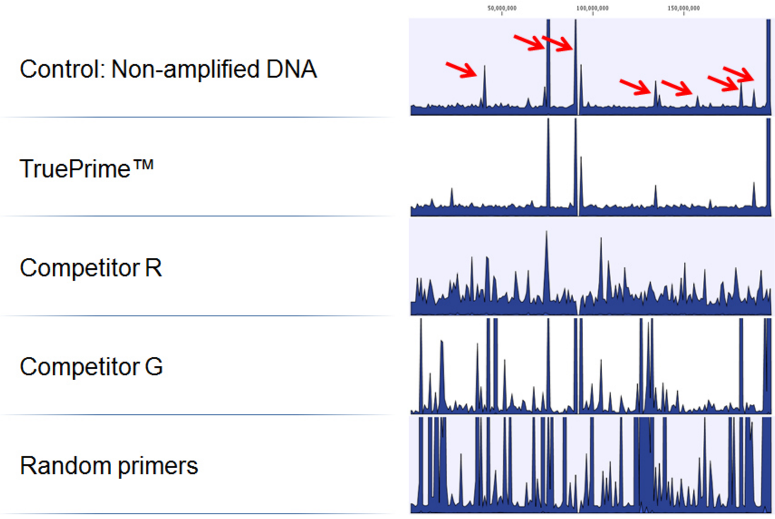


Product-pipeline and sales partnerships

For SYGNIS AG, so far financial year 2015 has been marked both by the launch of new products and the expansion of sales channels. A total of five new kits have been launched globally for the currently most important product lines, TruePrime™ and Sun-Script™.

The **TruePrime™** line focuses on the replication (amplification) of all genetic information without the use of synthetic primers. This means that limited amounts of DNA and RNA can be used in modern sequencing technologies. This is complemented by the **SunScript™** product line, which uses an innovative reverse transcriptase to transform RNA into DNA. This process allows RNA molecules to be effectively converted into DNA molecules, making them available for further analysis. Within both of these proprietary product lines, SYGNIS AG can develop individual kits to meet the strict requirements associated with polymerase. **QualiPhi®** (licensed out to Qiagen), **Double Switch technology** (licensed out to Thermo Fisher Scientific) and **PrimPol** complete the product portfolio.

Superiority of TruePrime™ over competitor products within a cromosome 3 reading



Source: SYGNIS AG

The above presentation clearly shows the superior quality of TruePrime™ compared to competitor products. While competitor products are associated with a higher level of inaccuracy in amplification of difficult cromosomes, material copied using TruePrime™ is almost identical to the original.

SYGNIS AG product launches

Q1 2015	Q2 2015	Q3 2015	Q4 2015
TruePrime™ scWGA Kit	TruePrime™ RCA Kits	SunScript™ One Step RT-PCR Kit	SunScript™ One Step RT-PCR Kit – gelified
TruePrime™ WGA Kit	SunScript™ RT RNAseH+		SunScript™ One Step q PCR Kit
	SunScript™ RT RNAseH-		

Source: SYGNIS AG; GBC AG

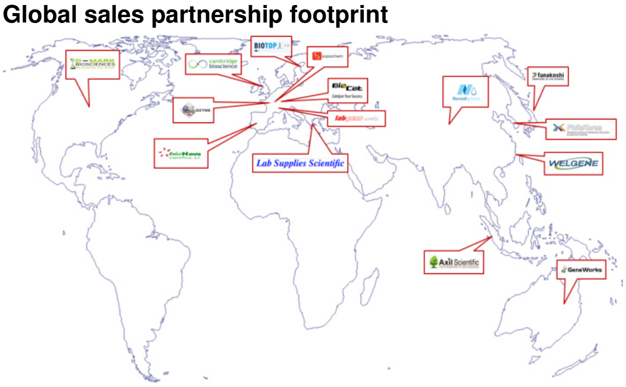
In parallel to the current out-licensing strategy, SYGNIS AG has concluded a number of global sales partnerships in the current financial year. In addition to Germany, Spain, France, Finland, China, Australia, Belgium, Canada, the UK, Ireland, Switzerland, Taiwan and Japan are now covered by sales partnerships. As these are non-exclusive sales partnerships, SYGNIS AG is able to expand its sales to further regions. Furthermore, all SYGNIS products can be purchased directly via the newly established online shop.

Sales agreements concluded

Date	Sales partner	Region
December 2014	BioCat GmbH	Germany
January 2015	bioNova cientifica s.l.	Spain
March 2015	FUNAKOSHI Co. Ltd.	Japan
March 2015	D-MARK BIOSCIENCES	Canada
March 2015	OZYME	France
March 2015	SOPACHEM	Belgium
May 2015	Cambridge Bioscience	UK and Ireland
June 2015	Welgene Biotech	Taiwan
June 2015	Biotop Oy	Finland
August 2015	Nanodigmbio	China
August 2015	GeneWorks Pty Ltd	Australia
September 2015	LABGENE Scientific	Switzerland

Source: SYGNIS AG; GBC AG

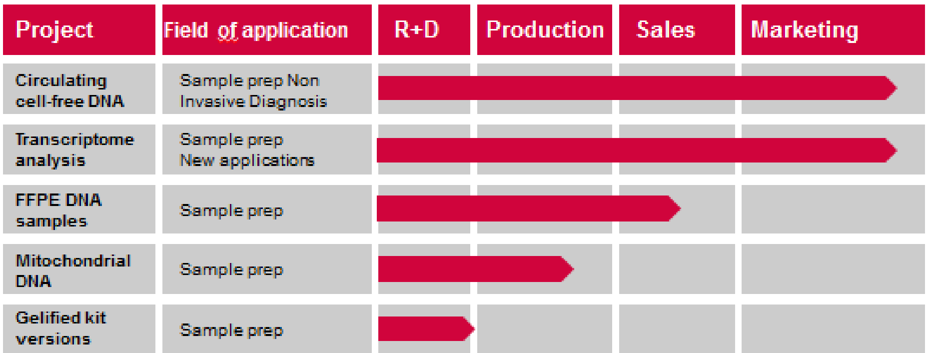
Global sales partnership footprint



Source: SYGNIS AG; GBC AG

For the upcoming financial year 2016, further product pipeline products are set to be launched. The clinical applications of products relating to “cell-free DNA” are likely to be of particular interest and aim the high-volume hospital market.

Project pipeline for financial year 2016



Source: SYGNIS AG; GBC AG

Business development 9m 2015

in €m	9m 2014	9m 2015
Revenue	0.30	0.31
EBITDA	-2.06	-2.41
EBIT	-2.27	-2.71
Net profit	-2.37	-2.78

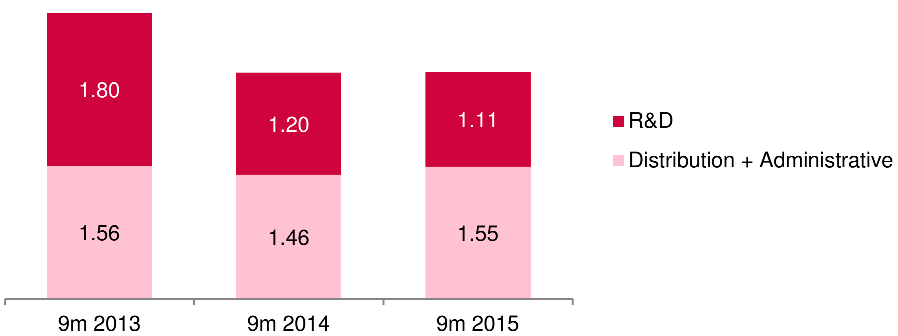
Source: SYGNIS AG; GBC AG

As presented, SYGNIS AG's operational focus in the first three quarters of 2015 was on the launch of new products and the expansion of its sales network. Since the new products are still at the beginning of the marketing cycle, the revenue they have achieved is low, as expected. According to the company, kit sales in the current launch phase were subject to heavy discounts. Although the number of kits sold was very low, at 251 (first nine months of 2015), SYGNIS products achieved a high level of acceptance. SYGNIS AG's main clients are primarily leading research centres, academic institutions, laboratories and hospitals.

In parallel to its own product families TruePrime™ and SunScript™, SYGNIS achieves revenue from the marketing of Caco-2 licensing rights in the USA and the marketing of QualiPhi®, licensed out to Qiagen. SYGNIS AG's products are only in the early marketing phase, during which it is typical for customers to be somewhat hesitant, resulting in continued low revenue. Experience has taught us that orders will pick up after a lead time of around six months. The current revenue level is therefore in line with our expectations.

On this basis, SYGNIS AG's EBIT stands at -€2.71m (9M/14: -€2.27m). Extraordinary expenses weighed on EBIT significantly, associated with employee severance pay, expenses outside of regular business and moving costs, totalling €0.36m (9M/14: €0.00m). These result from the optimisation of administrative structures through the reduction of administrative employees and the move to smaller business premises within Heidelberg, which are in line with the company's operational business model. Without extraordinary effects, SYNGNIS AG would have achieved a constant level of operating costs (distribution and administration; research and development), which would have meant constant EBIT (adjusted EBIT: -€2.35m):

Adjusted operating expenses (in €m)



*Source: SYGNIS AG; GBC AG *The first nine months of 2015 were adjusted for extraordinary effects in the amount of €0.36m*

As a result, net post-tax losses, at -€2.78m, were also higher than last year (9M/14: -€2.37m). At this point, we should mention the low amount of financial expenses for debt capital, resulting in the company incurring only a low level of expenses arising from financial results, at -€0.09m (9M/14: -€0.12m).

Financial Situation as at 30/09/2015

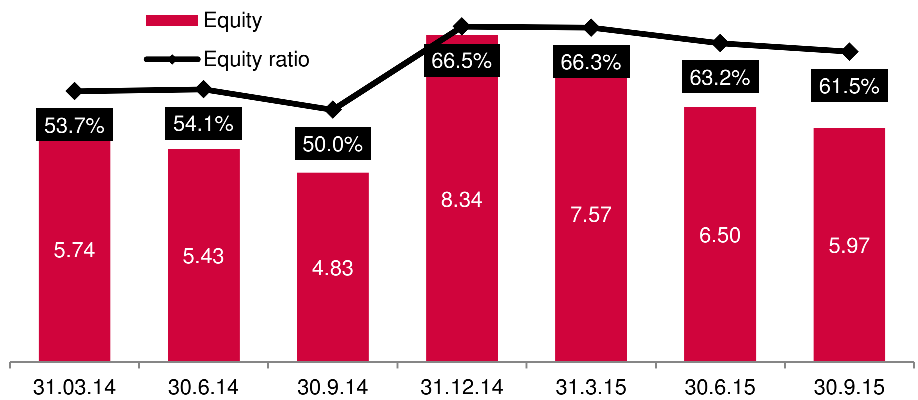
in €m	30/09/2014	31/12/2014	30/09/2015
Shareholder's capital	4.83	8.34	5.97
Equity ratio (in %)	*50.0%*	*66.5%*	*61.5%*
Liquid assets	0.36	3.76	0.61
Operating assets	1.99	1.86	1.99
Working capital	-1.32	-0.95	-0.30
Net Debt	1.77	-1.49	1.67
Operating Cashflow	-2.56	-3.58	-3.12
Investment - Cashflow	-0.36	-0.62	-0.36
Financing - Cashflow	1.05	5.44	0.36

Source: SYGNIS AG; GBC AG

In the current, still early, marketing phase, which, due to continued low revenue, involves a certain level of cash burn, there is a focus on SYGNIS AG's cash position. In the first nine months of 2015, the company posted a free cash flow of -€3.48m (9M/14: -€2.92m), which is mainly associated with the net loss for the period. The higher cash burn compared to the same period last year is primarily associated with extraordinary effects in relation to the discussed optimisation of corporate structures. Furthermore, SYGNIS AG posted an increase in working capital compared to financial year-end 2014 of €0.65m, which also affected the liquidity.

In previous periods, cash burn has been offset primarily through capital increases. This was partly also the case in the period under review, through the use of a SEDA equity commitment.

Equity (in €m) and equity ratio (in %)



Source: SYGNIS AG; GBC AG

Other balance-sheet ratios demonstrate SYGNIS AG's solid asset position. Equity remained at a comparatively high level due to the capital increases undertaken, despite the continued negative earnings performance. As at 30/09/2015, with equity at €5.97m, the equity ratio stood at 61.5% (31/12/14: 66.5%). Therefore, the majority of corporate financing is covered via equity, although SYGNIS AG also has promotional loans and corporate loans totalling €2.94m (31/12/14: €2.89m). The majority of promotional loans are interest-free and have a maturity of over 10 years.

CAPITAL INCREASE 2015

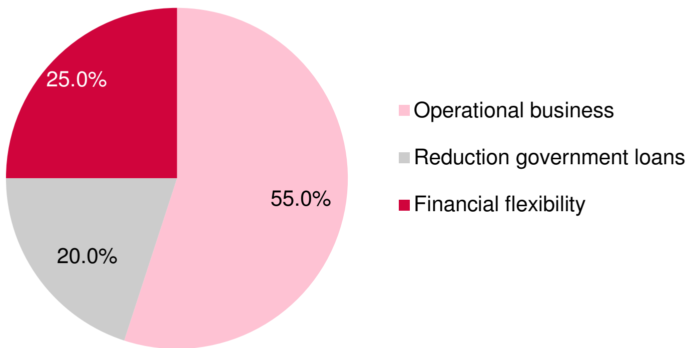
Key capital increase figures	
Number of shares to be issued:	3,855,694
ISIN/WKN:	DE000A1RFM03 / A1RM0
Subscription price:	€1.90 per share
Gross issue proceeds:	€7.33m (full placement)
Of which **guaranteed** contributions by major shareholders:	€0.60m
Subscription ratio:	7:2
Exercise period:	23/11/2015 to 7/12/2015

Source: SYGNIS AG; GBC AG

According to a company notice dated 17/11/2015, SYGNIS AG plans to undertake an increase in share capital by issuing 3.86m new shares. According to the timetable in the publically available securities prospectus, the subscription period is set to run from 23 November 2015 to 7 December 2015 and seven existing shares will confer entitlement to two new shares. The new shares are set to be introduced onto the Frankfurt Stock Exchange (Prime Standard) for trading on the regulated market from 21 December 2015.

In the event of a full placement, SYGNIS AG's equity will increase by a total of €7.33m (subscription price: €1.90 per share). Major shareholder and lender Genetrix S.L. has declared that is it firmly prepared to contribute loan entitlements of €0.60m to the capital increase as a contribution in kind. This will further strengthen equity and simultaneously reduce debt capital.

Planned use of funds according to the security prospectus



Source: SYGNIS AG; GBC AG

According to the planned use of funds, around 59% of proceeds from the capital increase are planned to be used to finance operating business until break-even is achieved (at the latest on 31/12/2017). In addition to expanding existing product lines, this involves customer growth, particularly in the USA. As such, the company plans to intensify sales of its own products, both through sales representatives and further partnerships with distributors. In parallel to this, as already successfully carried out in the current financial year, the global sales network is set to be expanded to win new customers.

Around 21% of liquidity inflow is to be used to repay existing public promotional loans. As at 30/09/2015, the company has government promotional loans of €2.01m, the majority of which is made up of a €1.64m interest-free, long-term loan. We assume that SYGNIS will first repay the interest-bearing loan, thereby resulting in an overall reduction in financial expenses.

A further 20% of issue proceeds from the capital increase are to be used to maintain financial flexibility. To achieve the growth strategy, attractive projects and products may be acquired from third parties.

In the following revenue and earnings forecasts, we have not yet taken the current ongoing capital increase (pre-money) into consideration. After completion of the capital increase, we will update our forecast planning to include fresh liquidity.

Forecasts and Valuation

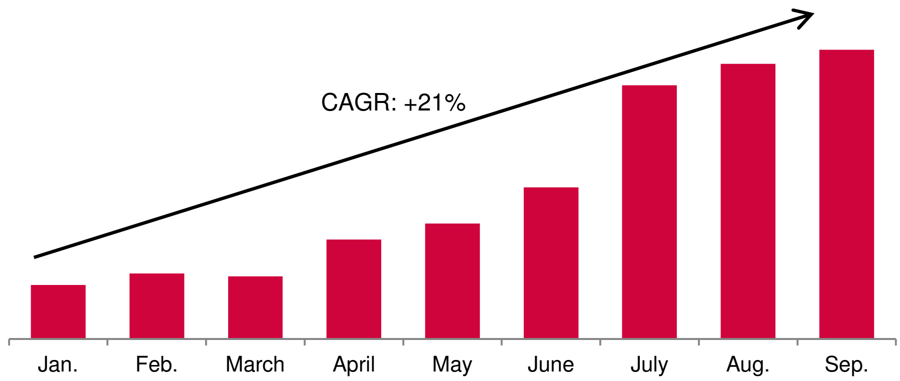
Income statement (in €m)	FY 2015e	FY 2016e	FY 2017e
Revenue	0.70	2.75	4.80
EBITDA	-3.09	-0.56	0.66
EBITDA margin	*neg.*	*neg*	*13.8%*
EBIT	-3.44	-0.81	0.40
EBIT margin	*neg*	*neg*	*8.3%*
Annual net profit	-3.54	-0.91	0.21
EPS in EUR	-0.27	-0.07	0.02

Source: GBC AG

We updated our forecasts recently on 08/10/2015, based on the half-yearly figures for 2015. The nine-month figures for 2015 met both our and the company's expectations. Accordingly, SYGNIS AG has restated its guidance issued in the 2015 half-year report, in which it estimated revenue of between €0.50–0.70m. As a result, without including the current capital increase, our previous forecasts remain unchanged.

However, it is clear that the company has recorded a successive increase in orders received during the course of 2015. According to the company, monthly average order growth currently totals 21%:

Orders received (in €) in the current financial year, 2015



Source: SYGNIS AG; GBC AG

A significant factor in our forecasts is the further expansion of sales partnerships and, in parallel, an extended product range. SYGNIS AG has had significant recent success in concluding sales partnerships. In addition to Germany, Spain, France, Finland, China, Australia, Belgium, Canada, the UK, Ireland, Switzerland, Taiwan and Japan are now covered by sales partnerships. As these are non-exclusive sales partnerships, SYGNIS AG is able to expand its sales to further regions.

In parallel to this, the company is also intensifying product pipeline sales via the company's own channels (website, direct customer contact at specialist conferences, etc.). In relation to this, in April 2015, the appointment of Dr Miguel-Antonio Viribay as new Vice-President of Sales and Marketing was announced. He is responsible for the further development and implementation of sales strategies. Dr Viribay has over 16 years' experience in the biotechnology sector and, over his career, 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 sales. A short product development time is critical in this, since products do not have to undergo clinical testing and therefore can quickly progress to the marketing stage. It is therefore realistic to expect rapid expansion, innovation and development with regard to the product pipeline. As SYGNIS products are consumables for the laboratory and testing industries, they are not subject to any regulatory risks.

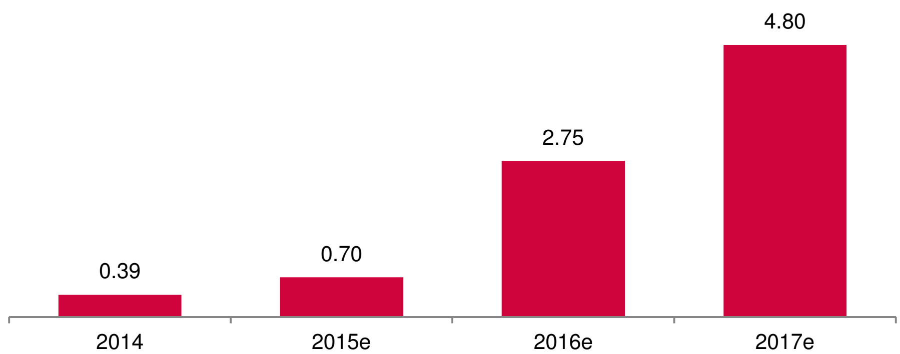
Within the first two product lines launched in 2015, TruePrime™ and SunScript™, SYGNIS AG has already launched five kits. Further kits are set to be launched to cover further fields in the high-growth DNA amplification and DNA sequencing market. In doing so, fundamental research is set to be scaled back, as key products have already been developed to the point of market readiness.

A short-to medium term goal for SYGNIS AG is likely to be to cover the significantly higher market potential in the hospital segment, with the current portfolio predominantly aimed at laboratories or research organisations. The use of DNA tools has spread to the mass market, with an increased demand expected from the hospital segment (personalised medicine, preventative measures, etc.). Access to the hospital sector would mean higher sales volumes and, therefore, higher revenue. We expect a corresponding SYGNIS product line to be launched at the end of 2015/beginning of 2016.

Sales and earnings forecasts

We reaffirm our forecasts (see research study dated 08/10/2015), which predicted an increase in revenue to €2.75m due to an initial sales impetus in the upcoming financial year 2016. The key sales driver in the upcoming financial year 2016 is likely to be the sales of TruePrime™ technology and SunScript™. Although we expect the company to enter the hospital segment in 2016 via a new product line, significant revenue contributions will however probably not be achieved until financial year 2017, after a lead time of six months (revenue forecast: €4.80m):

Sales forecasts (in €m)



Source: GBC AG

Based on this, we expect operating break-even on a full-year basis to be achieved in financial year 2017, with an expected EBIT of €0.40m. We base this on the company's solid operating cost basis, which has been further reduced via the optimisation measures undertaken. Furthermore, SYGNIS AG's business model is highly scalable, meaning that increased revenue is expected to result in a disproportionately high increase in net income. The focus must therefore be placed on sales. In the medium- to long term, we expect SYGNIS AG, as a basis for our DCF valuation model, to achieve an EBIT margin of over 50%.

Evaluation results

In view of our confirmed forecasts, our DCF valuation model remains unchanged. The pre-money price target calculated as part of the DCF model as at the end of financial year 2016 is €3.75 per share. Based on the current price level, our previously issued BUY rating remains unchanged. After the capital increase has been carried out, we will reassess the situation and issue a revaluation.

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.

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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:
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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:
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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;5b;6a;10;11)

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