

Planned takeover of another profitable company - Innova and SYGNIS product ranges complement one another perfectly - Attractive acquisition price - Capital increase planned for financing

08/05/2017 - GBC Research Comment - SYGNIS AG

Company: SYGNIS AG^{*4;5a;6a;7;10;11}

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*Potential conflicts of interest on page 7

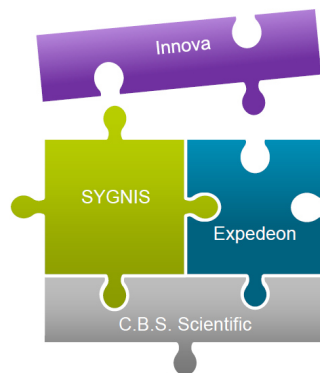
External growth accelerated with further takeovers - keeping an eye on the buy-and-build strategy

According to a company announcement on 08 May 2017, SYGNIS AG is eying up Innova Biosciences Ltd. ("Innova") for its next business acquisition, which will further accelerate external growth. In the previous financial year, the company was active in the M&A area with its acquisition of Expedeon Holdings Ltd. and C.B.S. Scientific Company Inc., which have now been fully integrated. Both acquisitions may well serve as a template for the planned purchase of Innova.

Expansion in proteomics and electrophoresis through previous takeovers of Expedeon and C.B.S.

A significant aspect was the efficient expansion of the product portfolio to include applications for the proteomics area. This was achieved through the Expedeon takeover, as well as the expansion into electrophoresis systems through the C.B.S. acquisition. This has enabled broader coverage of the workflow in the NGS-area. Synergy effects in the production and sales areas were also realised at an early stage. SYGNIS reported the complete integration of C.B.S. only four months after its purchase, including rapid staff integration and merger of production facilities. To further complement its product portfolio and to continue its external growth, SYGNIS AG is planning a takeover of Innova Biosciences Ltd.

Continuation of external growth through the planned acquisition of Innova Biosciences Ltd.

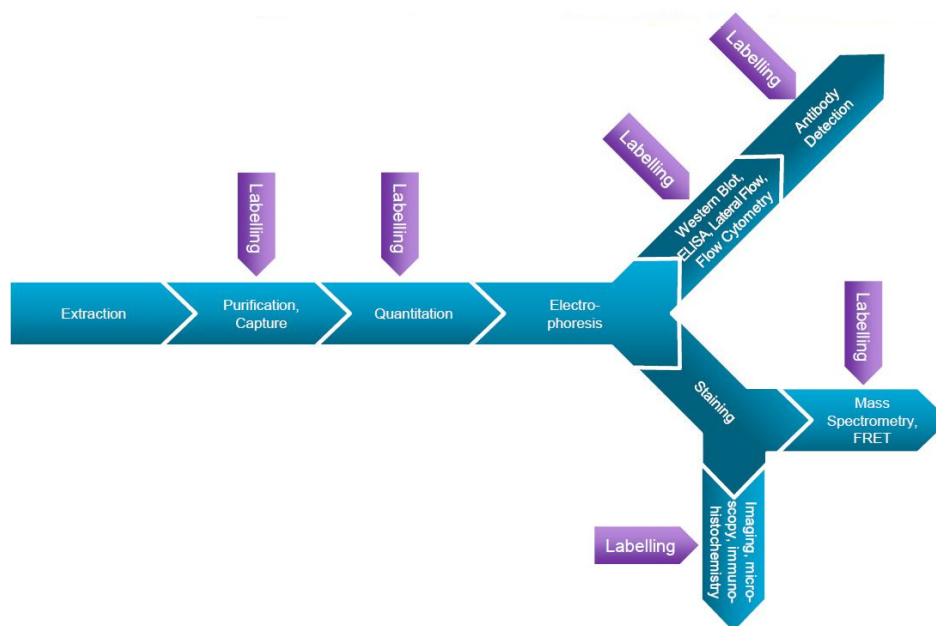


According to its own statements, Innova Biosciences Ltd., located in Cambridge (UK), is a leading provider of products in the area of protein labelling, a process which is highly important for the measurement of proteins. In addition, protein and DNA labelling is an important component in the various steps of the NGS process (next generation sequencing) and in protein analysis, from which there are obvious potential synergy effects with

SYGNIS AG. Since the acquisitions of Expedeon and C.B.S, SYGNIS AG now covers the proteomics area as well as its original business field of genomics, thereby including both key markets in life sciences.

A large number of products (over 300), applications and services have been developed using the Innova technology, which was developed on a proprietary basis and is patented in 24 countries. Its main products include rapid, one-step labelling kits for antibodies, proteins and peptides. The company also offers conjugation kits for nanoparticles and oligonucleotides. Essentially, Innova products label proteins to assist in their detection, measurement and analysis in subsequent steps of analysis. ISO 9001 certification guarantees reproducibility and quality when using Innova products.

Workflow use of Innova products in the field of proteomics



Source: SYGNIS AG

Innova products are also used in the R&D and diagnostic areas. SYGNIS AG estimates that the market in genetics and protein research to be worth a total of USD 9 billion. The rapidly growing market for diagnostics, which includes the cancer diagnostics area of biomarkers and DNA, is estimated to be worth over USD 20 billion.

The portfolio, which includes more than 300 products, can be seen as a vertical complement to the SYGNIS product range and, in our view, shows high potential for synergies. The decisive factor here is that molecular labelling is necessary in practically every step in analyses of DNA and protein. The acquisition of Innova enables a significantly larger coverage of the workflow, thereby increasing added value.

There is also a highly overlapping customer base, because the two companies have a complementary product range. This means that both companies address similar customers in research and academia as well as in the industry (pharmaceutical research, biomarker research, oncology, etc.). The similar customer profiles allow SYGNIS AG to quickly expand the existing customer relationships and thereby increase the potential for cross-selling.

Customer Base of SYGNIS AG

| R&D | Industry |
|-----|----------|
| | |
| | |
| | |

Source: SYGNIS AG; GBC AG

High synergies are also to be expected as a result of the bundling of production, administration, research and sales capacities. In connection with these, Innova, which is based in Cambridge, provides high synergy potentials so that savings on the cost side can be quickly realised. The SYGNIS Group would then have a total of five locations in Europe, North America and Asia.

Footprint of SYGNIS AG



Source: SYGNIS AG; GBC AG

After acquisition sales over the EUR 10 million mark with improved profitability

| Innova Bioscience Ltd. (in EUR million) | 2017e | 2018e |
|---|-------|-------|
| Sales | 3.52 | 4.33 |
| Net profit | 0.79 | 0.98 |

Source: GBC AG; SYGNIS AG;

SYGNIS AG should have dynamic growth rates in the coming financial years, based in particular on accelerated external and product-related organic growth. In accordance with our previous reports (see the research report of 25 January 2017), we expect strong sales growth in the current 2017 financial year as well as the achievement of the breakeven point during the year. The breakeven point should be reached on a full-year basis for the first time in the next 2018 financial year. Innova Biosciences Ltd. has an annual sales level of about EUR 3 million, according to information from SYGNIS, and is already highly profitable, with high margins and net income for the year of EUR 0.5 million. In the 2016 financial year, Innova should have achieved sales growth of about 20%, which is evidence of dynamic business development. Innova should also continue to grow by at least 20% annually.

Key figures of the transaction

Total acquisition price of up to EUR 12,8 million

According to a current company news release, the Innova transaction will be financed by a capital increase. Through the planned issuing of 7.21 million shares at a price of EUR 1.38, about EUR 10.0 million (gross) will be raised. The planned cash portion for Innova shareholders of about EUR 8.00 million will be paid from this. In addition, it is planned to give a further 2 million SYGNIS shares to Innova shareholders in the form of a contribution in kind. If this contribution in kind capital increase has an assumed issue price of EUR 1.38 per share, the acquisition price would be EUR 10.8 million.

| | |
|--|-----------------------------------|
| Capital increase (rights offering) | 3.58 million shares |
| Capital increase (without subscription rights) | 3.62 million shares |
| Contribution in kind | 2.00 million shares |
| Earn-Out | up to 1.5 million shares |
| Total | up to 10.71 million shares |

A further component of this transaction structure is a sales-based earn-out of up to 1.5 million SYGNIS shares (750,000 SYGNIS shares per year respectively) which will be awarded to previous Innova shareholders, as long as growth targets are reached. This results in a value for the earn-out component of EUR 2.0 million and thus the total acquisition price for Innova Biosciences Ltd. will be EUR 12.8 million.

Valuation of the transaction

Inexpensive by comparison with peer group

In the subsequent market comparison we determined the multiples from the current market valuations of comparable companies in the research and diagnostics areas:

| Company | Sales-Multiple 2016e | Net Profit-Multiple 2016e |
|---|-------------------------|------------------------------|
| abcam plc | 10.8 | 49.5 |
| bioMérieux' group | 3.8 | 67.3 |
| Bruker Corporation | 0.3 | 39.2 |
| Illumina Inc. | 11.3 | 59.9 |
| Pacific Biosciences of California, Inc. | 4.0 | -4.8 |
| Perkinelmer, Inc. | 3.1 | 27.9 |
| Systemex Corporation | 5.8 | 40.3 |
| Tecan Trading AG | 4.0 | 36.9 |
| Mean | 5.4 | 39.5 |
| Median | 4.0 | 39.7 |
| Innova Bioscience Ltd. | 4.4 | 25.3 |

Source: GBC AG; publicly available company information

The total acquisition price presented by us for the Innova acquisition as well as the inclusion of the P/L key figures supplied by SYGNIS results in a sales multiple of 4.4 and a multiple of 25.3 on the basis of earnings after taxes. Both values are to be seen as relatively low according to our peer group market comparison, and on this basis the acquisition price is classified as very attractive. In particular, we have conducted a stand-alone approach to Innova, omitting possible synergy effects in the production, research, and above all, sales.

DCF valuation is also attractive

Along with this, we have also valued the attractiveness of the acquisition price in the context of an indicative DCF valuation model for Innova Biosciences Ltd. It should, however, be noted that only a limited amount of data about Innova is available to us. **Assuming sustained sales growth of 20.0%, a constant sales yield of 22.0% and capital costs equivalent to the SYGNIS value, we have determined the fair value of the company (on a 2017 basis) to be EUR 30.00 million. Based on this valuation, we also classify the purchase price for Innova as very attractive.**

Key figures of the indicative DCF-valuation model

| in EUR million | FY 2017e | FY 2018e | FY 2019e |
|----------------|----------|----------|----------|
| Sales | 3.52 | 4.33 | 5.33 |
| Net Profit | 0.79 | 0.98 | 1.20 |

| Consistency - Phase (FY 2020 – 2024) | |
|--------------------------------------|-------|
| Sales growth | 20.0% |
| EBITDA-Margin | 25.0% |

| Terminal Value - Phase | |
|---------------------------|-------|
| Eternal sales growth rate | 3.0% |
| Eternal EBITA - Margin | 28.1% |

Sensitivity Analysis – Valuation Result

| | WACC | | |
|--------------|-------|--------------|-------|
| | 7.7% | 8.7% | 9.7% |
| 39.2% | 34.05 | 27.60 | 23.17 |
| 41.2% | 35.61 | 28.80 | 24.13 |
| 43.2% | 37.17 | 30.00 | 25.09 |
| 45.2% | 38.72 | 31.20 | 26.05 |
| 47.2% | 40.28 | 32.41 | 27.01 |

Source: GBC AG (own estimates and assumptions)

Note: In the context of a planned comprehensive research report, we will revise our projections for sales and earnings taking the current transaction into account.

ANNEX

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| | |
|------|---|
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