Research Report (Anno)

SYGNIS AG

Strong sales growth and EBITDA break-even achieved in the last quarters, continued dynamic (inorganic organic) growth expected, SYGNIS serves high-growth future markets

Target Price: 3.30 €

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 § 85 WpHG and Art. 20 MAR on page 17

Note on research as a "minor non-monetary benefit" according to the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". For more information, see the disclosure under "I. Research under MiFID II"

Date of completion: 15/06/2018

Date of first publication: 18/06/2018

GBC AG Investment Research

SYGNIS AG*4,5a,6a,7,10,11

BUY
Price Target: 3.30 EUR

current price: 1.42
15/06/18 / XETRA 11:30 am
currency: EUR

Key data:

ISIN: DE000A1RFM03
WKN: A1RFM0
Ticker symbol: LIO1
Number of shares³: 50,37.
Marketcap³: 71.53
EnterpriseValue³: 75.75
³ in Mio. / in Mio. EUR

Transparency Level:
Prime Standard

Market Segment:
Regulierter Markt

Accounting Standard:
IFRS

Financial year-end: 12/31

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* catalogue of potential conflicts of interests on page 18

Company Profile

Sector: Biotechnology

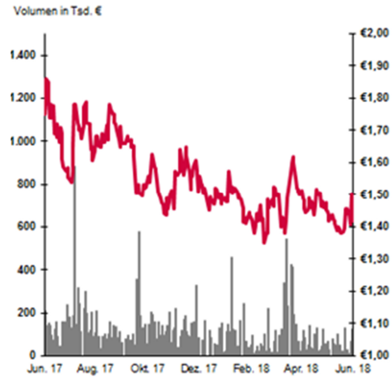
Focus: development and commercialisation of DNA-technologies, proteomik-applications, Labeling-technologies

Employees : 89 (31/12/2017)

Founded in: 1997

Headquarter: Heidelberg

Executive Board: Dr. Heikki Lanckriet, David Roth



SYGNIS AG, headquartered in Heidelberg, is a life sciences company listed on the Prime Standard of the Deutsche Börse. The company focuses on the development and marketing of innovative molecular biology technologies in the NGS (next-generation sequencing) and the immuno-diagnostic sector. Its most important products currently on the market are TruePrime™ (DNA amplification), SunScript™ (transcribing RNA into DNA), RunBlue (DNA and protein separation and purification), Lightning Link (DNA and protein labeling) and Captsure™ (biomarker capture) which are sold both through their own marketing and by non-exclusive sales partners. Other products (e.g., DNA amplification under liquid biopsy) should also make entry possible into high-volume point of care and clinical diagnostic markets (e.g. hospitals). SYGNIS AG acquired Expedeon Holdings Ltd. and C.B.S. Scientific in 2016 as part of its acquisitive growth strategy. This expanded its product spectrum in the proteomics area, the second most important market segment for molecular biology. Innova Bioscience Ltd was acquired in 2017, resulting in further vertical expansion of the product range.

P&L in EURm	31/12/2017	31/12/2018e	31/12/2019e	31/12/2020e
Revenue	7.80	13.91	19.67	23.61
EBITDA	-2.46	0.95	3.61	4.72
EBIT	-4.06	-0.90	1.81	2.92
Net Profit	-3.26	-1.01	1.54	2.53

Per Share ratios in EUR				
Gewinn je Aktie	-0.07	-0.02	0.03	0.05
Dividende je Aktie	0.00	0.00	0.00	0.00

Ratios				
EV/Revenue	9.71	5.45	3.85	3.21
EV/EBITDA	neg.	79.73	20.98	16.05
EV/EBIT	neg.	neg.	41.85	25.94
P/E	neg.	neg.	46.45	28.27
P/B	1.79			

Financial Schedule
05/07/2018: AGM
09/08/2018: Financial Report Q2
08/11/2018: Financial Report Q3

**last research published by GBC:
Date: publication / price target in € / rating
08/11/2017: RS / 3.30 / BUY
25/01/2017: RS / 3.70 / BUY
16/06/2016: RS / 3.95 / 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 past reporting periods, SYGNIS AG has achieved substantial progress. The finally completed integration of the companies acquired in 2016 and 2017, Expedeon Ltd., C.B.S. Scientific and Innova Biosciences, is particularly worthy of mention, as a result of which a significant expansion of the product range was achieved, as well as a related development of the distribution channels. During the course of product expansion, SYGNIS AG, which originally specialised in the areas of DNA/RNA sample enrichment and analysis, has succeeded in covering both of the important sub-areas of Life Sciences (genomics and proteomics), as well as supplementing the product range with the protein marking field. In addition, the Company also covers the area of immunodiagnostics and should be able to address the high-volume areas of laboratory diagnostics (point of care) and clinical diagnostics (hospital).

- Due to the inorganic and organic (introduction of new products, new OEM deals etc.) growth, sales revenues climbed substantially in the FY 2017 to €7.80 million (PY: €1.79 million), which meant that the company fulfilled its own guidance (€7 - 8 million). The high sales dynamics also continued in the first quarter of 2018, with sales growth to €2.31 million (Q1 2017: €1.37 million), so that a sustainable increase in the sales level is evident from this.

- The circumstance due to which SYGNIS AG achieved a positive EBITDA for the first time of €0.05 million in the fourth quarter of 2017 and in the following first quarter of 2018 is particularly worthy of mention. With the publication of the annual report for the 2016 financial year, the SYGNIS management held out the prospect of exactly this scenario of a first-time break-even in the fourth quarter of 2017. However, on a full-year basis for 2017, the EBITDA continued to be in the negative range, at €-2.46 million (PY: €-3.21 million).

- According to the company, with sales revenues in the amount of €13 - 14 million, in the current financial year 2018, the EBITDA break-even should also be achieved on a full-year basis. In the company guidance, TGR Biosciences, which was acquired in the second quarter of 2018, is also included for the first time. The newly acquired company also has considerable overlaps with the SYGNIS product world, with its protein capturing products, and therefore goes hand-in-hand with high synergy potential. TGR Biosciences reports annual sales revenues of €3.6 million and operates clearly in break-even, with an EBITDA of €1.4 million. In 2018, TGR will be included in the SYGNIS Group for a total of eight months.

- Analogously to the company forecast, we anticipate dynamic sales development as well as sustainable achievement of break-even on an EBITDA basis from the current financial year 2018. In addition to the broader sales basis, the reduction of operating costs following the completed integration of the acquired new companies is noteworthy. Based on this, the substantially higher sales level, which we expect, should also lead to a rising level of earnings.

- Within the scope of our adapted DCF valuation model, we have calculated a fair enterprise value in the amount of €171.30 million (previously: €153.14 million). Broken down over the greater number of shares following the capital increase carried out for the TGR acquisition, this results in a unchanged target price of €3.30 (previously: €3.30). Based on the current share price of €1.42, we are maintaining our BUY rating.

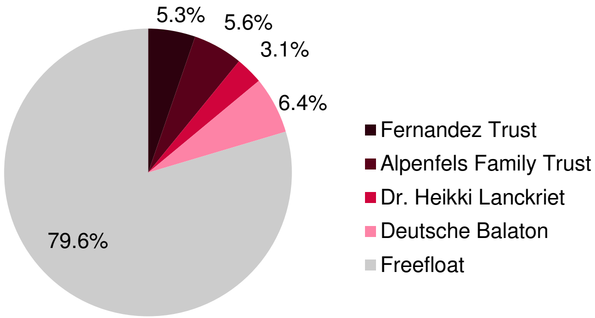
INHALTSVERZEICHNIS

COMPANY

Shareholder Structure

Shareholder	in %
Fernandez Trust	5.3%
Dr. Heikki Lanckriet	3.1%
Deutsche Balaton	6.4%
Alpenfels Family Trust	5.6%
Freefloat	**79.7%**

Source: SYGNIS AG; GBC AG



Acquisition strategy of SYGNIS AG

In May 2018, SYGNIS AG announced the completion of the acquisition of the Australian company, **TGR Biosciences**. The total purchase price of €10.4 million includes a cash share due upon acquisition of €6.5 million and a payment of €1.3 million, which is due after one year. An earn-out agreement in the amount of up to 3.0 million Australian dollars (equates to approx. €2.0 million) is also due after the first and second year after the TGR transaction. Instead of earn-outs in cash, a convertible debenture with a notional value of up to 5.0 million Australian dollars (€3.25 million) can be issued, which is convertible into shares at a price of €1.50 per share.

The financing of the cash portion due upon acquisition in the amount of €6.5 million occurred within the scope of a capital increase, which was carried out in March 2018 (gross issuing proceeds: €4.2 million) and the raising of debt capital (around €2.0 million).

With the acquisition of TGR Biosciences, SYGNIS AG continued the inorganic growth strategy, which it has implemented in the past financial years. As part of the acquisitions which took place (Expedeon, C.B.S. and Innova), the focus was on a synergetic expansion of the product range, combined with the development of the distribution structures. The TGR acquisition is regarded as a consistent continuation of this strategy.

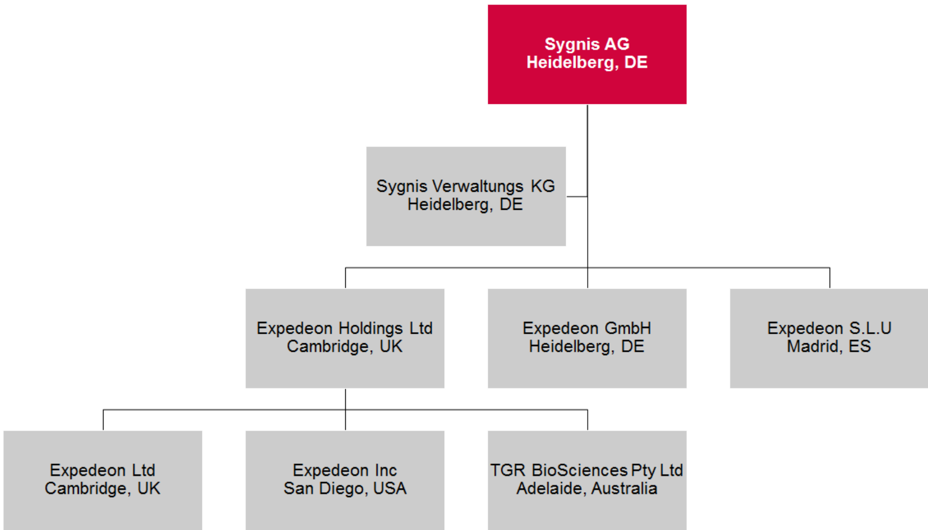
SYGNIS AG, which originally specialised in the fields of DNA/RNA sample enrichment and analysis, accessed the proteomics market with the acquisition of **Expedeon Ltd**. in July 2016, thereby covering both important sub-areas of Life Sciences (genomic and proteomics). This involves a horizontal expansion of the product range with a related, significant development of the distribution channels. Horizontal product expansion was also achieved at the end of 2016, through the acquisition of the significantly smaller company, **C.B.S. Scientific**, which functions as a system provider in the field of electrophoresis. Finally, in the past financial year 2017, **Innova Biosciences**, which is domiciled in Cambridge (UK), was acquired and therefore expanded the product range with the protein marking segment, an important procedure for protein measurement.

The TGR product range particularly has very high synergy potential compared to the Innova products. The focus of this is on the self-developed technology for protein capturing, which is used in various analysis methods (ELISA, micro printed circuit boards etc.). This is a tool for pharmaceutical research and for the diagnostics segment and, accordingly, addresses potential high-volume markets.

Particularly in the R&D field, the high technological overlap of both product worlds (SYGNIS and TGR) enables considerable synergy potential, which can be quickly realised. As TGR had mainly covered product distribution through previous distribution agreements and partnerships, growth in sales should be achievable with the use of the considerably further-reaching direct sales channels of SYGNIS AG. Alongside this, the cross-selling potential resulting from the aggregation of products is also regarded as being high.

At the time of acquisition, TGR Biosciences reports annual sales revenues of €3.6 million and operates clearly in break-even, with an annual EBITDA of €1.4 million. Alongside the quick product integration, the operational key performance indicators of the SYGNIS Group should be improved as a result of this. During the current financial year, TGR Biosciences will contribute to the sales and earnings of SYGNIS AG for around eight months.

Corporate structure



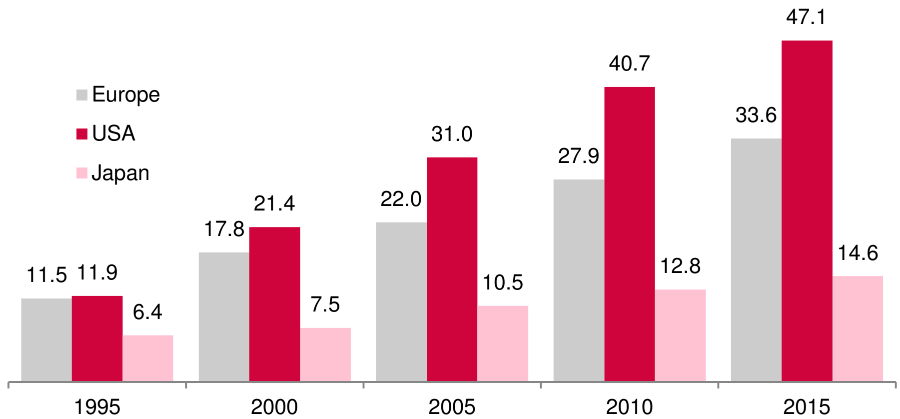
Market und Market Environment

The products of the original SYGNIS business, as well as those of the newly added companies (Expedeon, Innova, C.B.S., TGR), are used in the high-growth segments of medical research and diagnostics. The products, which are complementary to one another, are used for DNA and RNA duplication and analysis in the field of proteomics applications, for marking proteins and antibodies, as well as in the bioanalytics segment (immunoassay).

The company's products are mainly still sold to academic and industrial users for research purposes, however, the company is basically pursuing the goal of addressing the substantially larger diagnostics market. The diagnostics segment, specifically the in-vitro diagnostics (IVD) field, is an important part of the healthcare system in the industrialised countries. IVD are used for the diagnosis, monitoring and ascertaining of predispositions to diseases. The increased use of personalised treatments, resulting from technological progress, should particularly be an important driver for future IVD development. A key element in personalised medicine is targeted and individualised diagnostics, which, according to the Diagnostics Industry Association, enables a better understanding of physiological and pathological conditions. According to MarketsandMarkets, the volume of the global IVD market in 2017 will grow to around 64 billion US dollars and should increase to 87.9 billion US dollars by 2023, with a CAGR of 5.2%.

In addition to the high-volume diagnostics market, high demand and, consequently, a substantial increase in sales volume should be observed for SYGNIS AG from the largely unregulated research and development segment. The significant increases in R&D expenses for pharmaceutical companies in Europe, USA and Japan are indicative of this. According to the European industry association, EFPIA, expenditures tripled (in the respective national currency) during the period between 1995 and 2015, which stands for high growth in this segment.

R&D-Expenses of pharmaceutical companies (in country currency)



Source: efpia; GBC AG; USA (in US-Dollar), Europe (in €), Japan (in ¥)

Company Development & Forecasts

P&L (in €m)	FY 2016	FY 2017	FY 2018e	FY 2019e	FY 2020e
Revenue	1.79	7.80	13.91	19.67	23.61
Costs of goods sold	-1.03	-2.88	-4.17	-5.71	-6.85
Sales expenses	-0.90	-1.87	-2.75	-3.74	-4.49
Administration expenses	-2.77	-6.32	-6.50	-6.60	-7.00
R&D expenses	-1.22	-0.79	-1.39	-1.97	-2.36
Other operating expenses	0.10	0.00	0.00	0.15	0.00
EBIT	**-4.02**	**-4.06**	**-0.90**	**1.81**	**2.92**
Financial result	-0.13	-0.17	-0.11	-0.10	-0.10
EBT	**-4.15**	**-4.22**	**-1.01**	**1.71**	**2.82**
Income tax	-0.24	0.96	0.00	-0.17	-0.28
Net profit	**-4.39**	**-3.26**	**-1.01**	**1.54**	**2.53**
EBITDA	-3.21	-2.46	0.95	3.61	4.72
in % of revenue	-179.3%	-31.6%	6.8%	18.4%	20.0%
EBIT	-4.02	-4.06	-0.90	1.81	2.92
in % of revenue	-224.7%	-52.1%	-6.5%	9.2%	12.4%
EPS in €	-0.12	-0.07	-0.02	0.03	0.05
Number of shares in m	37.34	44.93	51.12	53.27	53.27

Source: SYGNIS AG; GBC AG

Company development 2017/Q1 2018

P&L (in €m)	FY 2015	FY 2016	FY 2017	Q1/2016	Q1/2017	Q1/2018
Revenue	0.56	1.79	7.80	0.09	1.37	2.31
EBITDA	-3.48	-3.21	-2.46	-0.60	-1.03	0.05
EBIT	-3.86	-4.02	-4.06	-0.67	-1.32	-0.38
Net profit	-4.01	-4.39	-3.26	-0.68	-1.20	-0.32

Source: SYGNIS AG; GBC AG

In the past quarters, SYGNIS AG has pursued the consistent continuation of its own corporate strategy. This includes the organic and inorganic expansion of the product range, as well as the customer base. In the past financial year 2017, as well as in the first months of 2018, the company succeeded impressively with this, which is not least shown in a substantial improvement of the operational key performance indicators. The following highlights have contributed to this:

Highlights 2017 / Q1/2018

Introduction of TrueHelix
With the new bioinformatics service platform, TrueHelix, the customers can analyse the sequencing data using a dedicated web portal. The first service offered is TruePure, a bioinformatics tool, which examines the samples for purity and possible contamination. Impurities often lead to poor or flawed results.

Introduction of True Advance
With the market launch of DNA amplification and validation services, the NGS users are given the opportunity to determine whether the amplified DNS is of good quality and appropriate for NGS applications. TrueAdvance is also intended to support SYGNIS customers with single-cell applications and in the field of liquid biopsies.

Integration of C.B.S. Scientific, acquired at the end of 2016
The integration of the life sciences devices company, C.B.S. Scientific Company Inc., acquired in December 2016, was completed in April 2017. Within the scope of the integration, the C.B.S. premises in San Diego are used together with Expedeon, which was acquired in 2016. Furthermore, the merger of SYGNIS AG and C.B.S. was finally implemented organisationally as well as at the distribution level.

Additional OEM agreement with TANON
The already-existing agreement with the leading Chinese company in the proteomics field was extended. With the extended agreement, TANON receives the distribution rights for three SYGNIS product lines under its own brand names on the Chinese market. The annual sales revenues should exceed €1.0 million with the new agreement.

Acquisition of Innova Biosciences
The gross issuing proceeds raised within the scope of two capital increases in the amount of around €10 million were used for the acquisition of Innova Biosciences Ltd., as announced in July 2017. The acquisition of Cambridge (UK)-based Innova results in an expansion of the product range in the protein marking field, a procedure of great significance in protein measurement. Innova products are used in general for labelling proteins in order to enable their detection, measurement and analysis in subsequent steps of analysis. Labelling technologies, as offered by Innova, and which enable the recognition and quantification of biomolecules, are an important process step in the R&D segment, as well as in clinical diagnostics. The sales of Innova at the time of the acquisition amount to around €3.0 million p.a. The change of location and, consequently, the

complete relocation of the R&D, Production and Logistics fields of Innova, already occurred in October 2017.

Market launch of the Universal Lateral Flow Assay Kit
With the introduction of the Universal Lateral Flow Assay Kit, which is distributed under the Innova brand, researchers give doctors quicker access to POC tests and thereby enable earlier detection of diseases. The introduction of the kit is an additional supplement to the fast-growing product and service range in the field of lateral flow assay.

Market launch of the TruePrime™ apoptotic cell free DNA amplification kit
With the use of this kit, which originates from the TruePrime™ family, an exact DNA amplification of cell free DNA is enabled, which originates from plasma, serum, urine, cerebrospinal fluid or other bodily fluids. With this, the company's own product range is supplemented in the fast-growing market for liquid biopsies, which is one of the most important factors for the early detection and monitoring of cancer.

Integration of the products and services of acquired companies
With effect from 01/03/2018, subsidiaries acquired in the past financial years, Innova, Expedeon and C.B.S., were merged together into Expedeon. Therefore, through the company integration under one brand name, the use of comprehensive international sales and distribution networks as well as the transfer of know-how are much easier to implement. Customers profit from a larger presence in the distribution, service and support staff in North America, Europe and Asia.

Successful capital increase for the TGR acquisition
With the completion of another capital increase with gross issuing proceeds of around €4.2 million, part of the financing for the acquisition of TGR Biosciences PTY LTD was secured. After the effective date of 31/03/2018, the Australian company was acquired, which specialises in the field of research reagents (for key data of the transaction, refer to page 4).

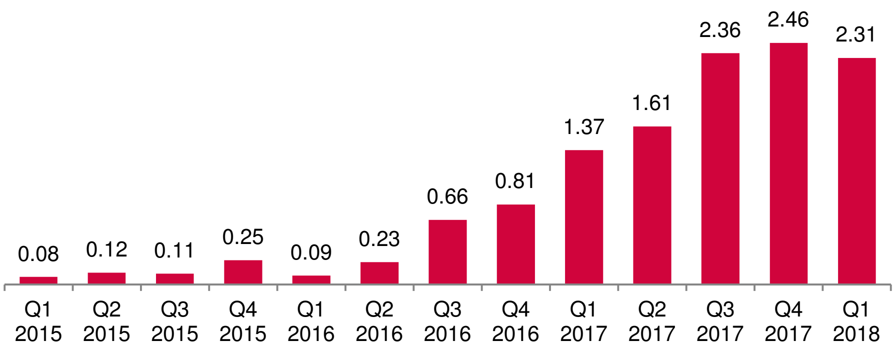
Revenue and earnings development

By contrast, with revenues of €7.80 million (PY: €1.79 million), SYGNIS AG generated substantial sales growth in the past financial year 2017 and therefore made a big jump upwards, after several financial years with low sales volume. The company guidance adapted after the Innova acquisition (sales revenues: €7 - 8 million), as well as our sales forecasts published within the scope of the annual study from November 2017 (€7.65 million), were each entirely fulfilled.

In addition to the organic growth which occurred, this increase in sales is particularly due to the first-time full-year inclusion of the revenues of Expedeon, which was acquired in 2016, and significantly, by the inorganic sales effects from the Innova acquisition. Innova, which was acquired as of 16/06/2017, contributed around €2.30 million to the total sales of SYGNIS AG since the time of the acquisition. Even without this transaction, SYGNIS would therefore have achieved substantial sales growth to €5.50 million (PY: €1.79 million).

The high revenue dynamics of the previous financial year continued with revenue growth of €2.31 million (Q1/17: €1.37 million) in the first quarter of 2018. The increase of the sustainable revenue level is particularly evident in the quarterly analysis.

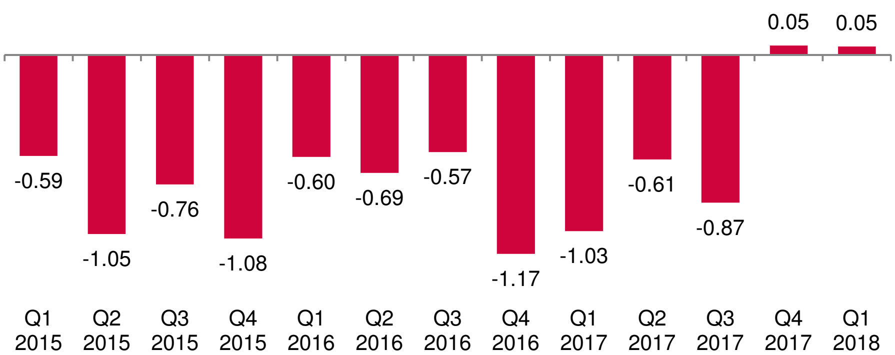
Quarterly revenue development (in €m)



Source: SYGNIS AG; GBC AG

The still-low revenue level of the past financial years was naturally accompanied by a negative level of earnings. In the 2017 financial year, SYGNIS AG still shows a negative level of earnings, with an EBITDA in the amount of €-2.46 million (PY: €-3.21 million), but in comparison to the previous year, a clearly positive trend is apparent. The circumstance that SYGNIS AG achieved EBITDA break-even for the first time in the fourth quarter of 2017 is also worth noting. With the publication of the annual report for the 2016 financial year, the SYGNIS management held out the prospect of exactly this scenario of a first-time break-even in the fourth quarter of 2017. The fact that the operating profit threshold is of a sustainable nature is put to the test by the repeated positive EBITDA in the first quarter of 2018.

Quarterly EBITDA-development (in €m)



Source: SYGNIS AG; GBC AG

The reason for this trend is the comparable development of operating costs, which is why the higher revenue level went hand-in-hand with economies of scale. Furthermore, special effects in relation to the purchase price allocation of the assets of the acquired companies, which do not affect liquidity, in the amount of €1.61 million (PY: €0.76 million), should also be taken into consideration. The adjusted EBITDA would therefore have been at €-0.85 million (PY: €-2.45 million) in the 2017 financial year and consequently close to break-even, on a full-year basis.

Deducting the acquisition-related higher depreciation in the amount of €1.60 million (PY: €0.8 million) and in consideration of financial expense, which is not noteworthy, SYGNIS AG reports an after-tax result of €-3.26 million (PY: €-4.39 million).

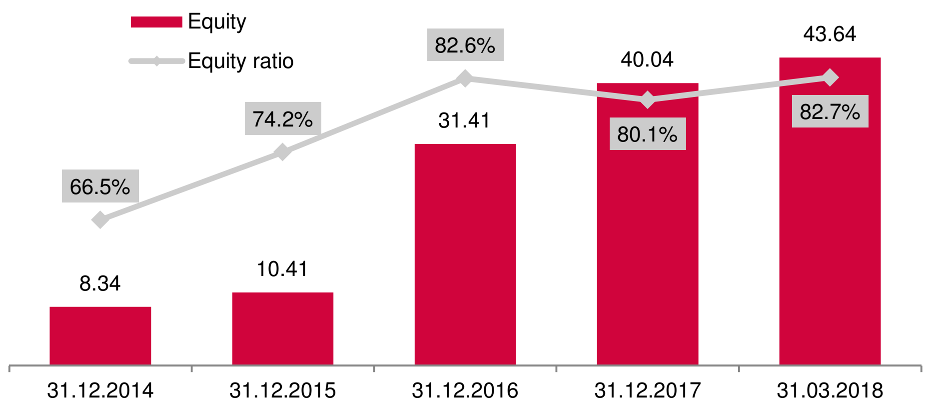
Balance sheet and financial situation

in €m	31/12/2015	31/12/2016	31/12/2017	31/03/2018
Shareholder's Capital	10.41	31.41	40.04	43.64
Equity ratio (in %)	74.2%	82.6%	80.1%	82.7%
Liquid assets	4.56	3.80	1.95	5.05
Cash flow (operating)	-3.82	-3.22	-2.89	-0.38
Cash flow (investment)	-0.53	-1.80	-9.32	-0.32
Cash flow (financing)	4.74	4.24	10.43	3.80

Source: SYGNIS AG; GBC AG

The balance sheet of SYGNIS AG has changed considerably in the past financial years. The significant increase in equity capital of €10.41 million (financial year-end 2015) to €43.64 million (31.03.2018) is particularly noticeable. For the implementation of the inorganic growth strategy, the company performed a series of corporate actions in the last reporting period. In 2017, the Innova acquisition and the acquisition of C.B.S. were financed with non-cash-equity and cash-equity increases, which raised the net equity capital by €13.37 million. As preparation for the acquisition of TGR Biosciences, which has already occurred in the meantime, another capital increase (net: €3.90 million) was successfully performed in 2018.

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

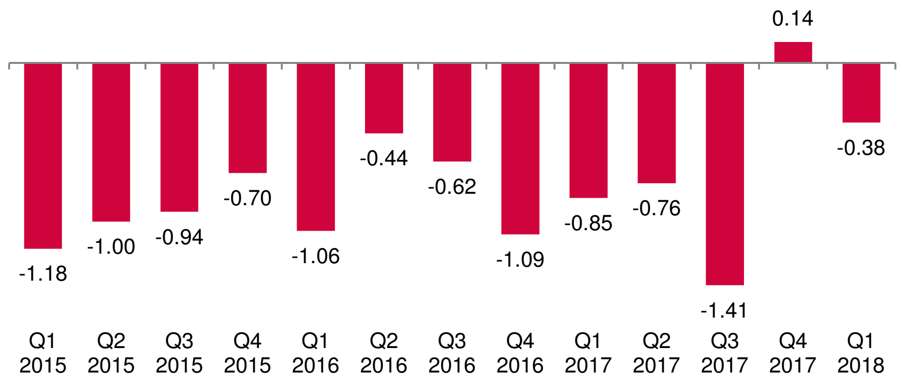


Source: SYGNIS AG; GBC AG

The acquisitions resulted in a substantial rise in goodwill to €30.68 million. €17.55 million is attributable to Expedeon, acquired in 2016, and €8.07 million is attributable to Innova. Together with the addition of the identified assets, the company showed a substantial balance sheet extension. The equity ratio nevertheless stabilised at a high value above 80%, as a result of the capital increases.

With SYGNIS AG, the analysis of the liquidity position is particularly interesting, as the company has not yet shown any operational inflow of liquidity from operating activities. However, the company has already achieved progress in operating cash flow, in the environment of a considerable improvement in sales and earnings. In the fourth quarter of 2017, SYGNIS AG generated a positive inflow of liquidity from operating activities, with €0.14 million. The fact that a positive value was not achieved again in the first quarter of 2018 is due to the slight rise in working capital. On a full-year basis for 2018, the operating cash flow should establish itself within a positive range according to company expectations.

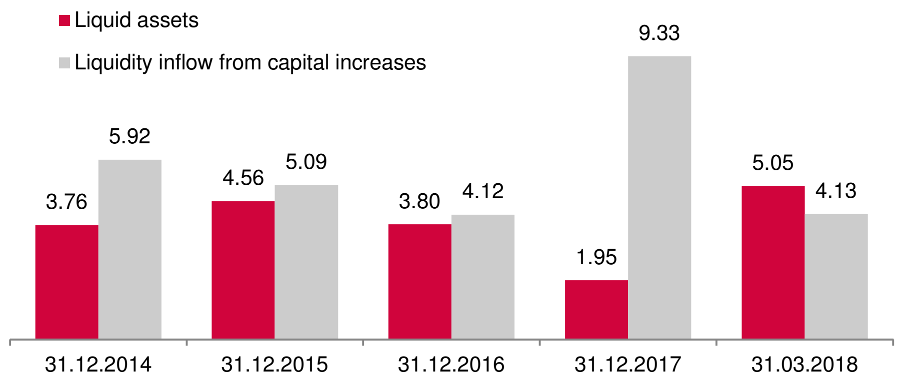
Operating cash flow (in €m)



Source: SYGNIS AG; GBC AG

The capital increases, which have occurred in the past financial years, were sufficient for compensating the operating outflow of liquidity, as well as the company acquisitions, so that SYGNIS AG can show solid development with cash and cash equivalents. Most recently, cash and cash equivalents as of 31/03/2018 grew significantly to €5.05 million, however, this is only regarded as a reporting-date effect. The capital increase, which was performed prior to the balance sheet date, in the net amount of €4.13 million, was used in May for financing the TGR acquisition.

Capital increases and liquid assets (in €m)



Source: SYGNIS AG; GBC AG

FORECASTS AND MODEL ASSUMPTIONS

P&L (in €m)	FY 2017	FY 2018e	FY 2019e	FY 2020e
Revenue	7.80	13.91	19.67	23.61
EBITDA	-2.46	0.95	3.61	4.72
EBIT	-4.06	-0.90	1.81	2.92
Net profit	-3.26	-1.01	1.54	2.53

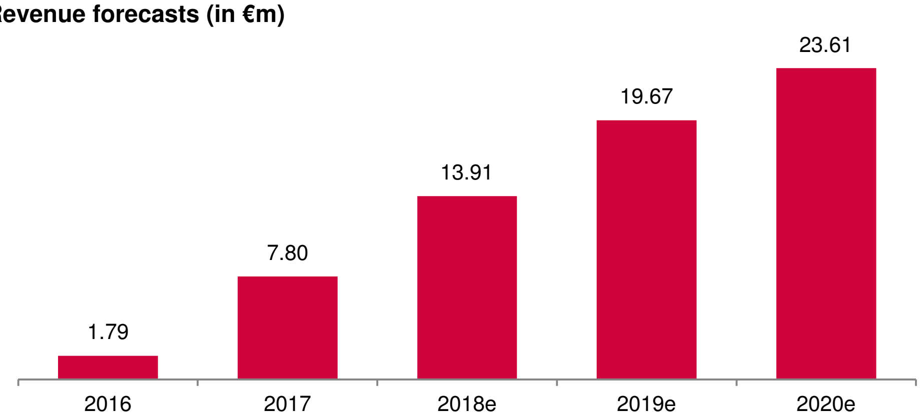
Source: GBC AG

Revenue forecasts 2018 - 2020

In particular, the significantly improved operating key performance indicators of SYGNIS AG as of the 2017 year-end, as well as at the start of the current 2018 financial year, illustrate the growth path taken by the company, as well as the operational turn-around on an EBITDA basis. According to the former company guidance published within the context of the company reporting, in 2018, sales revenues should be generated within a range of between € 11 - 12 million, during the course of continued growth dynamics. Both of the last quarters (Q4 2017 and Q1 2018) show an annual run rate of approx. €10.0 million, which means that SYGNIS AG is only required to achieve slight sales growth in the amount of €1 - 2 million organically.

In our opinion, this is a realistic scenario, as the company is continuously launching new products on the market, for example. At the end of 2017, with the TruePrime™ apoptotic cell free DNA amplification kit, a new kit was launched for the amplification of cell free DNA. It is possible to amplify (reproduce) freely circulating tumour DNA with the liquid biopsy kit, which could become an important tool in the high-growth segment of oncological research and diagnostics. Additional product from the acquired companies, should continue to drive forward the inorganic growth. In addition to this, the inorganic effects from the company acquisitions made in the past years should contribute increased positive effects. The expected synergy effects at the distribution level, due to the joint use of the distribution channels for the entire product world of SYGNIS AG, are particularly worthy of mention here.

Revenue forecasts (in €m)



Source: GBC AG

From the acquisition of TGR Biosciences in the current 2018 financial year, SYGNIS AG expects additional revenue potential in the amount of around €2.0 million, which led to a corresponding adaptation to the guidance (revenue forecast: €13 - 14 million). As the TGR sales are only included in the SYGNIS Group for a period of eight months, in the coming financial year, a corresponding base effect will be included. For the coming financial years, we anticipate continuing dynamics with the revenues. The product range of SYGNIS AG, which has now been expanded, offers very high cross-selling potential, as it is a complementary product range. Furthermore, investments occurred in the expansion of the direct distribution and marketing activities, with the aim of intensified new customer acquisition.

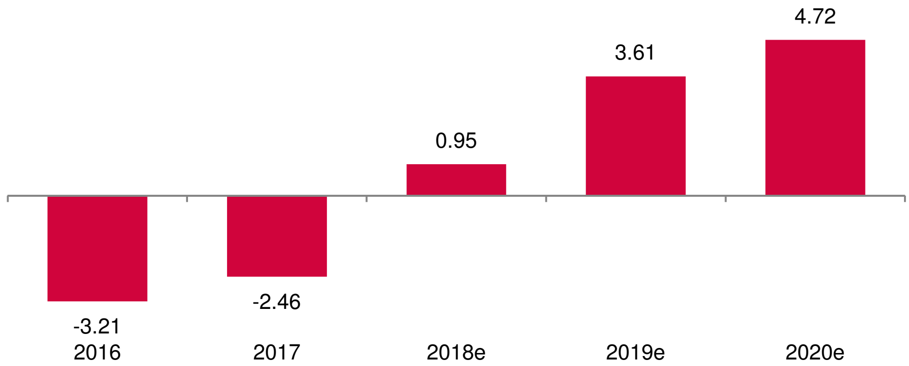
In principle, SYGNIS AG has achieved good positioning in the past, in order to serve the current demand from the largely unregulated research and development field. From this existing field alone, we anticipate high demand, which should quickly manifest itself in the form of high revenues. Furthermore, SYGNIS AG is well positioned to profit from the expected demand from the high-volume diagnostics markets. We see (refer to Market and market environment) the largest growth drivers of medium-term to long-term corporate development here.

Earnings forecasts 2018 - 2020

On the basis of the adapted forecast, as well as the forecast to date, a positive EBITDA of 2018 should be generated at the full-year level. The fact that a first-time EBITDA break-even is realistic on an annual basis can be seen from the EBITDA development of both past quarters, in which the profit zone was reached for the first time. In addition to the broader revenue basis, the reduction of operating costs following the completed integration of the acquired new companies is noteworthy. Based on this, the substantially higher revenue level, which we expect, should also lead to a rising level of earnings. Our earnings forecasts take account of the expected gross profit margin communicated by the company in the amount of 70 - 75%, as well as the expansion of the cost ratio for sales expenses, resulting from the supplementation of the sales team, to 20% of sales.

Expected R&D expenses in the amount of 10% of sales should also increase in absolute terms, due to the rising level of sales, and thereby support the launch of new products.

EBITDA-forecast (in €m)



Source: GBC AG

In our DCF valuation model, we took a long-term EBITDA margin of 45% into consideration.

VALUATION

Model assumptions

We rated SYGNIS AG using a three-stage DCF model. Starting with the specific consolidated estimates for the years 2018 - 2020 in phase 1, the outlook for 2021 to 2025 was developed in phase 2 using value drivers. We expect increases in revenue of 15.0 %. We have set 45.0% as the target EBITDA margin. We have included the tax rate in phase 2 at 15.0%, based on the remaining losses carried forward. Additionally, after the end of the forecast horizon, a residual value is determined in the third phase by means of a perpetual annuity. As the final value, we assume a growth rate of 3.0 %.

Determining the capital costs

The weighted average cost of capital (WACC) of SYGNIS AG is calculated from the equity cost and the cost of debt. 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.

The risk-free interest rate is derived from the current structured interest rate curves for risk-free bonds in accordance with the recommendations from the “Fachausschuss für Unternehmensbewertung und Betriebswirtschaft” (FAUB, Special Committee for Business Valuation and Business Management) of the “Institut der Wirtschaftsprüfer in Deutschland e.V.” (Institute of Public Auditors in Germany). This is based on the zero bond interest rate calculated using the Svensson Method published by the German Bundesbank. In order to compensate for short-term market fluctuations, the average returns for the previous three months are used and the result is rounded up to the nearest 0.25 basis points. **The value currently used for the risk-free interest rate is 1.25 %.**

We set the historical market premium of 5.50 % as a reasonable expectation of the market premium. This is supported by historical analyses of equity market returns. The market premium reflects in a percentage the improved return expected from equity markets relative to low-risk government bonds.

According to GBC estimates, a beta of 1.41 is currently determined. Using the premises provided, the equity cost is calculated at 9.03 % (beta multiplied by risk premium plus risk-free interest rate). As we assume a sustainable weighting of the equity cost of 90 %, the result is a weighted average cost of capital (WACC) of 8.65 %.

Valuation result

The resulting fair value per share at the end of the 2019 financial year corresponds to the stock price target of €3.30 (previously: €3.30). We took into account the capital increase carried out in relation to the TGR acquisition at a price of €1.40 and the related dilution effect. Altogether, our calculated total fair enterprise value climbed to €171.30 million (previously: €153.14 million).

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	45,0%
Depreciation to fixed assets	6,7%
Working Capital to revenue	1,3%

final - phase	
Eternal growth rate	3,0%
Eternal EBITA - margin	41,5%
Effective tax rate in final phase	25,0%

three phases DCF - model:

phase	estimate			consistency					final
in €m	FY 18e	FY 19e	FY 20e	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	value
Revenue	13.91	19.67	23.61	27.15	31.22	35.91	41.29	47.49	
Revenue change	78,4%	41.4%	20.0%	15.0%	15.0%	15.0%	15.0%	15.0%	3.0%
Revenue to fixed assets	1,16	1.46	1.26	1.26	1.26	1.26	1.26	1.26	
EBITDA	0.95	3.61	4.72	12.22	14.05	16.16	18.58	21.37	
EBITDA-Margin	6,8%	18.4%	20.0%	45.0%	45.0%	45.0%	45.0%	45.0%	
EBITA	-0.90	1.81	2.92	10.96	12.61	14.50	16.67	19.18	
EBITA-Margin	-6,5%	9.2%	12.4%	40.4%	40.4%	40.4%	40.4%	40.4%	41.5%
Taxes on EBITA	0,00	-0.18	-0.29	-1.10	-1.26	-2.17	-2.50	-2.88	
Taxes to EBITA	0,0%	10.0%	10.0%	10.0%	10.0%	15.0%	15.0%	15.0%	25.0%
EBI (NOPLAT)	-0,90	1.63	2.62	9.87	11.35	12.32	14.17	16.30	
Return on capital	-6,6%	14.8%	20.2%	52.5%	51.7%	48.8%	48.8%	48.8%	39.6%
Working Capital (WC)	-1,00	-0.50	0.00	0.34	0.39	0.45	0.52	0.59	
WC to revenue	-7,2%	-2.5%	0.0%	1.3%	1.3%	1.3%	1.3%	1.3%	
Investment in WC	1,28	-0.50	-0.50	-0.34	-0.05	-0.06	-0.07	-0.08	
Operating fixed assets (OAV)	12,00	13.50	18.80	21.62	24.86	28.59	32.88	37.81	
Depreciation on OAV	-1,85	-1.80	-1.80	-1.25	-1.44	-1.66	-1.91	-2.19	
Depreciation to OAV	15,4%	13.3%	9.6%	6.7%	6.7%	6.7%	6.7%	6.7%	
Investment in OAV	-0,53	-3.30	-7.10	-4.07	-4.69	-5.39	-6.20	-7.13	
Capital employed	11,00	13.00	18.80	21.96	25.25	29.04	33.40	38.41	
EBITDA	0.95	3.61	4.72	12.22	14.05	16.16	18.58	21.37	
Taxes on EBITA	0,00	-0.18	-0.29	-1.10	-1.26	-2.17	-2.50	-2.88	
Total investment	-5,75	-6.07	-8.57	-4.41	-4.74	-5.45	-6.26	-7.20	
Investment in OAV	-0,53	-3.30	-7.10	-4.07	-4.69	-5.39	-6.20	-7.13	
Investment in WC	1,28	-0.50	-0.50	-0.34	-0.05	-0.06	-0.07	-0.08	
Investment in Goodwill	-6,50	-2.27	-0.97	0.00	0.00	0.00	0.00	0.00	
Free cashflows	-4,81	-2.64	-4.15	6.71	8.05	8.54	9.82	11.29	249.01

Value operating business (due date)	162.30	178.98
Net present value explicit free Cashflows	22,98	27.61
Net present value of terminal value	139.31	151.36
Net debt	4.94	7,68
Value of equity	157.36	171.30
Minority interests	0.00	0.00
Value of share capital	157.36	171.30
Outstanding shares in m	51.12	51.87
Fair value per share in €	3.08	**3.30**

Cost of capital:

Risk free rate	1.3%
Market risk premium	5.5%
Beta	1.41
Cost of equity	9.0%
Target weight	90.0%
Cost of debt	7.0%
Target weight	10.0%
Taxshield	25.0%
WACC	**8.7%**

Return on capital \ WACC	**7.7%**	**8.2%**	**8.7%**	**9.2%**	**9.7%**
37.6%	3.93	3.50	3.14	2.85	2.60
38.6%	4.03	3.59	3.22	2.92	2.67
39.6%	4.13	3.68	**3.30**	2.99	2.73
40.6%	4.23	3.77	3.38	3.06	2.80
41.6%	4.34	3.86	3.46	3.13	2.86

ANNEX

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2. The research report is simultaneously made available to all interested investment services companies.

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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%.

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