

Expedeon AG^{*4,5a,6a,7,10,11}

BUY

Price Target: 3.20

current price: 1.01
26/11/18 / XETRA / 9:02 pm
Currency: EUR

Key Data:

ISIN: DE000A1RFM03
WKN: A1RFM0
Ticker symbol: EXN
Number of shares³: 50.66
Marketcap³: 51.17
EnterpriseValue³: 64.02
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

Date (time) of completion:
26/11/18 (10:25 am)
Date (time) of first distribution:
26/11/18 (12:00 am)

Company Profile

Sector: Biotechnology

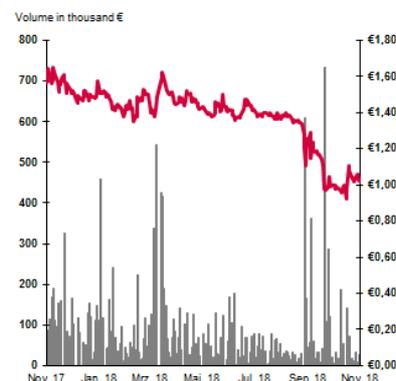
Focus: development and commercialisation of DNA-technologies, proteomik-applications, Labeling-technologies

Employees: 108 (30/06/2018)

Founded in: 1997

Headquarter: Heidelberg

Executive Board: Dr. Heikki Lanckriet, David Roth



Expedeon AG (formerly: 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 and TGR Biosciences in 2018 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	13.20	19.67	23.61
EBITDA	-2.46	0.52	3.61	4.72
EBIT	-4.06	-1.33	1.81	2.92
Net Profit	-3.26	-1.44	1.54	2.53

Per Share ratios in EUR

Gewinn je Aktie	-0.07	-0.03	0.03	0.05
Dividende je Aktie	0.00	0.00	0.00	0.00

Ratios

EV/Revenue	8.27	4.89	3.28	2.73
EV/EBITDA	neg.	124.10	17.88	13.67
EV/EBIT	neg.	neg.	35.65	22.10
P/E	neg.	neg.	33.55	20.42
P/B	1.29			

Financial Schedule

26.11.2018: Eigenkapitalforum Frankf.

**last research published by GBC:

Date: publication / price target in € / rating

18/06/2018: RS / 3.30 / BUY

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

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"

STRONG SALES AND EARNINGS GROWTH AFTER 9 MONTH 2018; FORECASTS AND TARGET PRICE CONFIRMED

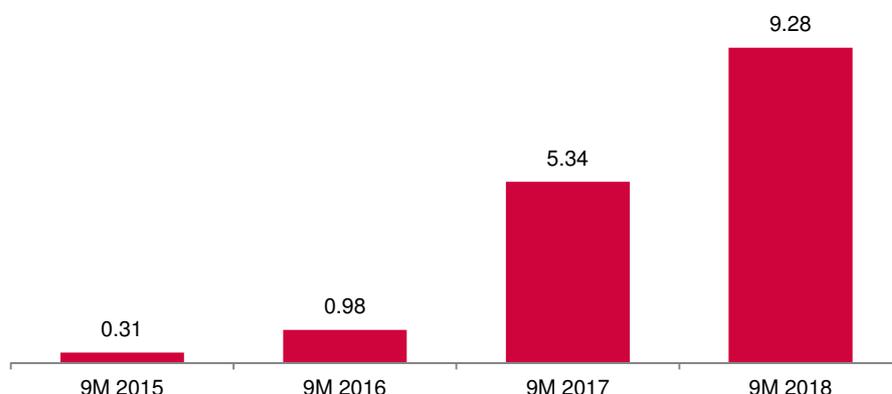
P&L (in €m)	9M 2015	9M 2016	9M 2017	9M 2018
Revenue	0.31	0.98	5.34	9.28
EBITDA	-2.40	-1.87	-2.52	0.14
Net profit	-2.78	-2.14	-3.14	-1.39

Source: Expedeon AG; GBC AG

Revenue and earnings development 9 month 2018

The clear upward trend in revenues already shown by Expedeon AG in previous quarters is also visible in the 2018 9-month figures. Revenues of EUR 9.28 million (previous year: EUR 5.34 million) were significantly above the previous year, as expected. This stems from both organic growth (expansion of the product range, expansion of the client base, increased demand for Expedeon products, etc.) as well as the high level of acquisition activity in previous financial years. The acquisitions in 2016 of Expedeon Ltd. and C.B.S. Scientific were noteworthy, as was the acquisition of Innova Biosciences in 2017. Australian company TGR Biosciences was also acquired in the first half of 2018, but was only consolidated into the Group on 01/05/2018 and so had only a proportionate effect on Expedeon Group revenues.

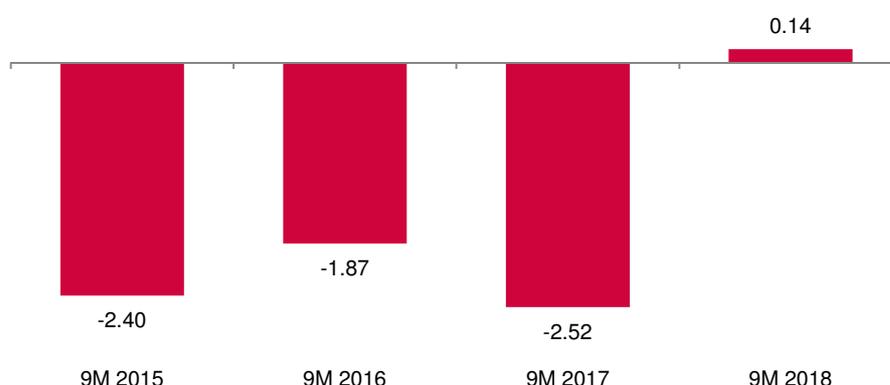
Revenue development on a 9-month basis (in €m)



Source: Expedeon AG; GBC AG

In general a start-up phase in which processes and organisational structures are combined must also be taken into account for new acquisitions. In the case of TGR Biosciences, this should have continued until the end of the third quarter of 2018, so the positive impact of this acquisition on revenue and earnings will only be felt fully from that point on.

In line with the strong growth in revenue, the brake-even and therefore a slightly positive result was achieved for the first time in EBITDA. EBITDA therefore improved significantly to EUR 0.14 million (previous year: EUR -2.52 million). As a result, the guidance of positive EBITDA for the full year should also be very achievable. The significant improvement in profitability is partly due to the effects of scaling against a backdrop of increasing revenue volumes. It is also partly due to the companies acquired in previous financial years showing, without exception, positive levels of profitability, thereby making an important contribution to the significant increase in earnings. With annual sales of EUR 3.6 million, the recently acquired TGR Biosciences is reporting EBITDA of EUR 1.4 million, with its contribution to results only partially reflected in Expedeon AG's 9-month result:

EBITDA on a 9-month basis (in €m)

Source: Expedeon AG; GBC AG

Break-even has not yet been reached at EBIT and after-tax level. Significantly higher depreciation and amortisation in the last reporting period were responsible for this, as a consequence of the assets recently added from acquisitions. Depreciation and amortisation amounted to EUR 1.71 million (previous year: EUR 0.85 million) in the first three quarters, significantly above the previous year; we are likely to see a further increase after finalising the TGR Biosciences purchase price allocation. In order to eliminate this non-liquidity effect, we will focus on EBITDA in the company analysis.

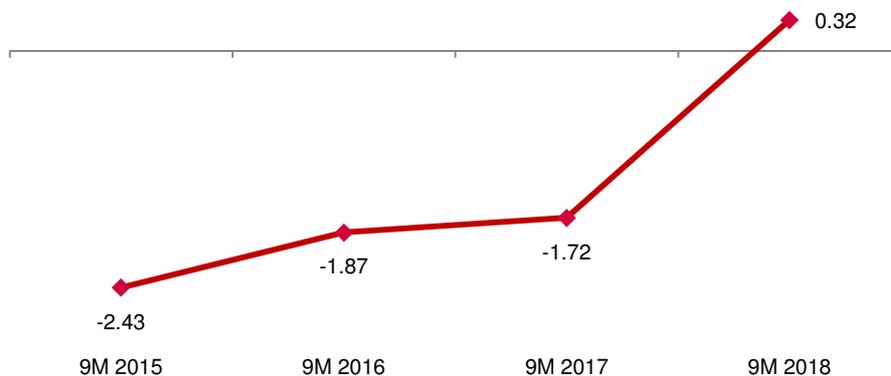
Balance sheet and financial Situation as at 30/09/2018

in €m	31/12/2015	31/12/2016	31/12/2017	30/09/2018
Shareholder's Capital	10.41	31.41	40.04	44.20
Equity ratio (in %)	74.2%	82.6%	80.1%	69.0%
Liquid assets	4.56	3.80	1.95	4.24
Cash flow (operating)	-3.82	-3.22	-2.89	-1.46
Cash flow (investment)	-0.53	-1.80	-9.32	-6.42
Cash flow (financing)	4.74	4.24	10.43	10.18

Source: Expedeon AG; GBC AG

It is noticeable that Expedeon AG has achieved significant improvements not only in earnings but also in operating cash flow, reaching EUR -1.46 million (previous year: EUR -3.02 million). If the negative effects of the revenue-related increase in working capital were adjusted, the Company would even have achieved a positive operating cash flow of EUR 0.32 million (previous year: EUR -1.72 million) for the first time, which can be seen as a key milestone in the Company's development. According to corporate data, the boost in working capital is leading to significant increases in sales, especially as at the reporting date of 30/09/2018, and is not expected to rise so steeply over the coming quarters.

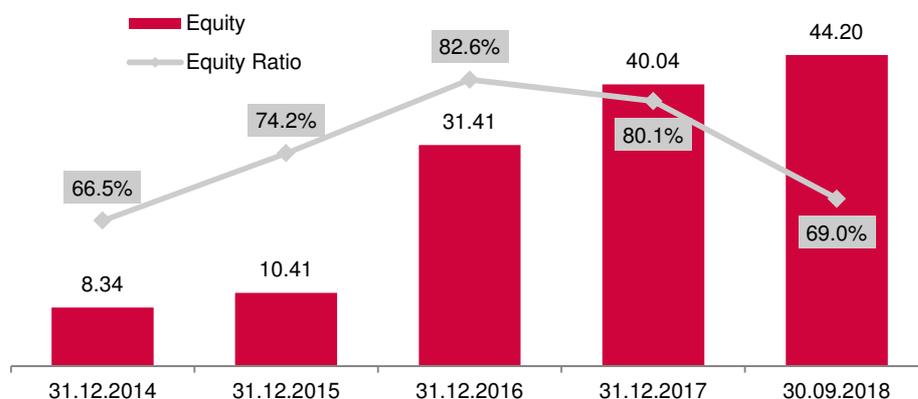
Operating cashflow changes in Working Capital (in €m)



Source: Expedeon AG; GBC AG

The TGR acquisition triggered further changes in the balance sheet overview for Expedeon AG. Similarly to previous company acquisitions, this was also financed primarily by a capital increase of EUR 4.54 million net. Despite the negative earnings position, equity improved to EUR 44.20 million, however the corresponding equity ratio fell to 69.0% (31/12/17: 80.1%). Additional third-party capital totalling EUR 10.24 million was raised and convertible bonds issued as financing components for the acquisition of TGR Biosciences, resulting in a rise in third-party capital and so a reduction in the equity ratio:

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



Source: Expedeon AG; GBC AG

In addition, in the third quarter the company announced the borrowing of additional debt of approximately EUR 5.6 million. As of the balance sheet date, a partial amount had been received, which led to a significant increase in cash and cash equivalents to € 4.24 million (31.12.17: € 1.95 million). In our opinion, this represents an adequate amount, especially as the operating cash flow should soon become sustainably positive. Borrowing is to be seen as part of a new financing strategy, following the focus on equity financing in previous years.

Forecasts and model assumptions

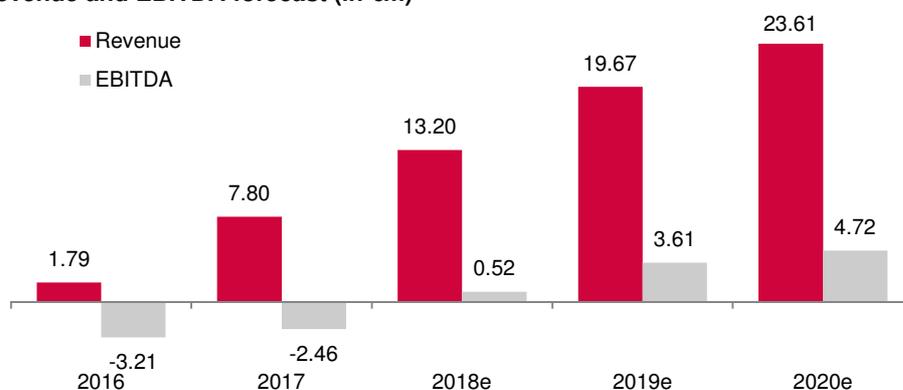
P&L (in €m)	FY 2017	FY 18e (old)	FY 18 (new)	FY 2019e	FY 2020e
Revenue	7.80	13.91	13.20	19.67	23.61
EBITDA	-2.46	0.95	0.52	3.61	4.72
EBIT	-4.06	-0.90	-1.33	1.81	2.92
Net profit	-3.26	-1.01	-1.44	1.54	2.53

Source: GBC AG

On the basis of the half-year figures, Expedeon AG has confirmed the most recently upgraded forecasts. In addition, sales of between EUR 13 million and EUR 14 million are expected and, for the first time, a break-even in EBITDA. To achieve the revenue guidance, the Company would have to generate further revenues of between EUR 3.7 million and EUR 4.7 million in the last quarter of the year. Based on the quarter just ended (Q3 2018), in which revenues of EUR 3.66 million were achieved, the Company's forecasts appear to be realistic. By contrast, our previous forecasts are somewhat too offensive, so we are anticipating a slight reduction to € 13.20 million (previously: € 13.91 million).

In addition, we are expecting the previously initiated growth trajectory to continue in the second half of the year. The ongoing launch of new products is helping to tap into new customers and markets. One example is the introduction of the TruePrime™ apoptotic cell-free DNA amplification kit at the end of 2017. This liquid biopsy kit can be used to amplify circulating tumour DNA in fluid. This is therefore expected to become an important tool for oncological research and diagnostics. Further product launches and the leveraging of synergy effects should have a positive impact on revenue development. We therefore confirm our medium term sales and profit estimates:

Revenue and EBITDA-forecast (in €m)



Source: GBC AG

The Company is well on the way to achieving its target of positive EBITDA for the full year. Against the backdrop of an expected increase in revenue and the complete consolidation of TGR earning contributions in the second half of the year, we see this as a very realistic target. Our expected EBITDA of € 0.52 million (previously: € 0.95 million) reflects the slightly lower sales expectations.

Based on the slightly reduced forecasts in our DCF-model we have determined new price target of EUR 3.20 (previously: EUR 3.30) per share. With a current price level of EUR 1.01, there is still abundant price potential and we therefore confirm our BUY rating.

ANNEX

I.

Research under MiFID II

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

II.

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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 relevant time horizon is $\geq + 10\%$.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is $> - 10\%$ and $< + 10\%$.
SELL	The expected return, based on the calculated target price, incl. dividend payments within the relevant time horizon, is $\leq - 10\%$.

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.

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Other person involved:

Manuel Hölzle, Dipl. Kaufmann, Head of Research

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