

Sygnis

Bigger, stronger, faster

Following the acquisition of Expedeon, Sygnis expects to achieve profitability in 2017 if sales grow to about €7m; management is focused on achieving sales synergies and controlling costs. The acquisition was funded by issuing 20.54m shares at €1.10 each including a cash fund-raising of €5.3m gross. Sygnis produces innovative molecular biology kits, while Expedeon makes well-designed products for protein analysis. Expedeon has a UK- and US-focused, 13-person sales and marketing team and a five-year sales CAGR of about 20%. Integration and sales training will take most of 2016. Guidance on sales is expected in November 2016.

Expedeon financials and deal structure

The acquisition cost of Expedeon at the rights issue price of €1.10/share was €19.0m (£16.4m), about 4.6x its 2016e sales of €3.5m as guided by Sygnis, up from €2.5m in 2015. We estimate that sales of up to €1.7m will be consolidated in H216. Expedeon's EBITDA margin in 2015 is stated to be 13% (about €325k), suggesting a purchase price of about 49x 2015 EBITDA. We estimate the margin may increase to 15% in 2016. The acquisition is crucial for the medium- to long-term profit potential.

Sygnis H1 results and rights issue

Sygnis reported €319k in sales in H116. The reported H116 net loss was €1.4m, down from a €1.9m loss in H115. The H116 cash outflow including capitalised R&D was €1.74m before other costs and capital expenditure of €0.41m, giving an H1 cash use of €2.15m. Cash was €2.4m as of 30 June. We estimate 2016 year-end cash of €5m after the funding and acquisition. Sygnis issued 20.5m new shares in July, making 37.3m in issue; there were 16.5m in issue as of 30 June.

Valuation: Acquisition gives solid basis for growth

Our May 2016 forecast is for 2016 consolidated revenues of around €3.2m (€5m annualised), with the loss reducing to about €1.0m. Revised guidance is expected from Sygnis with Q3 results in November. At the current price the enlarged group market cap is €48m, about 7x our combined 2017e sales estimate of €6.9m. From 2017 onwards, sales synergies, growth and cost control could enable profitability. Expedeon has a strong OEM sales channel with Sigma and a Chinese deal with Tanon. These deals might offer further opportunities for Sygnis's molecular biology products. Sygnis also plans to use its innovative molecular biology technology to enter the research market for liquid biopsy tests – tests for DNA fragments in the blood that can track and detect cancers. This could be a major product but is still in late-stage development.

Edison estimates

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/14	0.39	(1.92)	(19.27)	0.0	N/A	N/A
12/15	0.56	(2.62)	(19.31)	0.0	N/A	N/A
12/16e	3.18	(1.01)	(3.79)	0.0	N/A	N/A
12/17e	6.90	0.73	1.94	0.0	67.0	N/A

Source: Company data, Edison Investment Research

Healthcare equipment & services

Price €1.28

Market cap €48m

Share price graph



Share details

Code	LIO1
Shares in issue	37.3m
Net cash (€m) at 30 June 30 2016 (excluding rights issue proceeds)	2.4

Business description

Sygnis develops polymerases for the amplification and sequencing of DNA. It launched a directly sold web range of products in 2015, with more products due in 2016. It also uses distributors. Sygnis acquired Expedeon, a larger proteomics business with direct sales capability, in July 2016.

Bull

- Expedeon acquisition improves medium term growth and profit potential.
- Revised guidance in November (Q3 results) should improve visibility.
- Access to strong OEM sales channels via the Expedeon acquisition.

Bear

- Recent rights issue causes short-term dilution and stock overhang.
- Integration risk from new acquisition.
- Challenge to gain market share in a competitive market.

Analysts

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