

Expedeon AG

Germany / Biotech

Xetra

Bloomberg: EXN GR

ISIN: DE000A1RFM03

9M/18 Results

RATING

PRICE TARGET

Return Potential

Risk Rating

BUY

€ 2.55

155.0%

High

FORECASTS ADJUSTED FOLLOWING MIXED 9M/18 RESULTS

Expedeon AG's 9M/18 results published on 8 November were mixed. Revenues for 9M/18 came in roughly as expected and increased by 74% to €9.3m, (FBe: €9.4m; 9M/17: €5.3m). However, reported as well as EBITDA adjusted for non-cash items amounted to respectively €136k and €461k and were both below our estimate of €552k (9M17 adj: €1.7m). Reported and adjusted EBIT were also below our expectations. EBIT adjusted for other non-cash items amounted to €-1.3m (FBe: €-0.7m; 9M/17 adj.: €-2.6m). We had estimated that Expedeon's bottom line would benefit more strongly in Q3/18 from consolidation of the TGR acquisition (Q3/18 was the first full quarter of consolidation for TGR). We have fine tuned our FY/18E - FY/21E bottom line projections to account for the post-acquisition cost structure seen in Q3/18. Our new forecasts for FY/18 reported as well as adjusted EBITDA are respectively €0.4m and €1.0m (previously: €1.1m) and are in line with company guidance for positive EBITDA in FY/18. Based on our updated DCF-model, we arrive at a new price target of €2.55 (previously: €2.65). Our rating remains Buy.

9M/18 sales were as expected 9M/18 sales increased by 74% y/y to €9.3m (FBe: €9.4m; 9M/17: €5.3m). Expedeon's strong sales growth benefited from the consolidation of the acquired subsidiary TGR which contributed €1.8m to the topline. Sales growth excluding TGR's acquisition amounted to 40% y/y. As a result management feels confident of the future growth outlook and has reiterated the guidance for sales of €13-14m in FY 2018 (FBe: €13.4).

Gross margin widened to 72.2% in 9M/18 Gross profit increased by 108.6% y/y to €6.7m (FBe: €6.8m; 9M/17: €3.2m). The underlying gross margin widened to 72.2% in 9M/18 from 60.2% in 9M/17 (FBe: 72.3%). Besides economies of scale, we believe the margin expansion was also driven by the consolidation of the acquired company TGR, which has a slightly higher-margin product portfolio.

p.t.o.

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	0.56	1.79	7.80	13.41	18.11	22.09
Y-o-y growth	41.6%	222.3%	335.8%	72.0%	35.0%	22.0%
EBIT (€m)	-3.86	-4.02	-4.06	-1.99	-0.65	1.11
EBIT margin	-695.9%	-224.7%	-52.1%	-14.8%	-3.6%	5.0%
Net income (€m)	-4.01	-4.39	-3.26	-2.53	-1.27	0.26
EPS (diluted) (€)	-0.27	-0.18	-0.11	-0.05	-0.02	0.00
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-4.42	-3.89	-5.01	-1.64	-0.49	0.65
Net gearing	-23.4%	-3.5%	9.4%	22.6%	24.5%	22.8%
Liquid assets (€m)	4.56	3.80	1.95	4.94	4.44	5.10

RISKS

Risks include, but are not limited to intellectual property and patent challenges, shareholder dilution, competition and retaining management risks.

COMPANY PROFILE

Expedeon develops, manufactures and commercializes tools and reagents (kits) for use in research of biopharmaceutical, diagnostic and academic institutions. The company's patent protected technologies offer superior features compared to solutions existing in the market. The company has production facilities in the US, UK, Spain and Australia, as well as an own distribution network in the US, UK, Germany, Singapore and Australia.

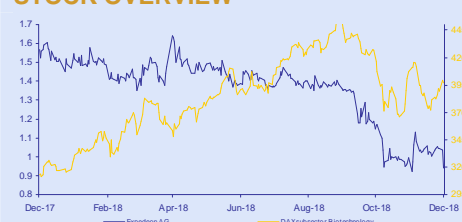
MARKET DATA

As of 04 Dec 2018

Closing Price	€ 1.00
Shares outstanding	50.66m
Market Capitalisation	€ 50.66m
52-week Range	€ 0.92 / 1.64
Avg. Volume (12 Months)	59,693

Multiples	2017	2018E	2019E
P/E	n.a.	n.a.	n.a.
EV/Sales	8.3	4.8	3.6
EV/EBIT	n.a.	n.a.	n.a.
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2018

Liquid Assets	€ 4.24m
Current Assets	€ 10.41m
Intangible Assets	€ 51.43m
Total Assets	€ 64.02m
Current Liabilities	€ 6.27m
Shareholders' Equity	€ 44.20m

SHAREHOLDERS

Deutsche Balaton	6.3%
Fernandez Trust	5.2%
Alpenfels Family Trust	3.9%
Dr. Lanckriet	3.1%
Free Float	81.5%



9M/18 EBITDA and EBIT figures reported as well as adjusted for certain non-cash items were weaker than anticipated The company reported EBITDA of €136k in 9M/18, which was below our estimate of €552k (9M/17: €-2.5m). However, other non-cash expenses relating to fair value of inventory acquired and now sold as well as to the employee option compensation plan totalled €325k. EBITDA adjusted for these non-cash items amounted to €461k and was slightly below our projection. Reported EBIT came in at €-1.6m. Adjusted for the above-mentioned non-cash items, EBIT was €-1.3m and below our projection of €-729k (9M/17 adj.: €-2.6m). The shortfall compared to our estimate can largely be explained by higher than expected administrative expenses stemming from the acquired company TGR. The first full quarter of consolidation of TGR was Q3/18. The shortfall was smaller at the EBITDA level, because TGR showed higher depreciation and amortisation expenses than we had anticipated. Net income for the period came in at €-1.4m (Net Income adj.: €-1.1m; FBe: €-711k; 9M/17 adj.: €-2.3m).

Figure 1: P&L 9M/18 reported figures vs. FB estimates and 9M/17 (KPIs)

All figures in EUR '000	9M/18 rep.	9M/18 adj.*	9M/18E	Delta	9M/17 rep.	9M/17 adj.*	Delta
Revenues	9,281	9,281	9,420	-1%	5,337	5,337	74%
Gross profit	6,705	6,748	6,830	-1%	3,214	3,214	109%
margin	72.2%	72.7%	72.5%		60.2%	60.2%	
EBITDA	136	461	552	-16%	-2,515	-1,716	n.a.
margin	1.5%	5.0%	5.9%		n.a.	n.a.	
EBIT	-1,577	-1,252	-729	n.a.	-3,366	-2,567	n.a.
Net income / loss	-1,392	-1,067	-711	n.a.	-3,142	-2,343	n.a.
EPS (in EUR, dil.)	-0.03	-0.02	-0.01	n.a.	-0.08	-0.06	n.a.

*Profitability figures adjusted for other non-cash as well as acquisition-related expenses

Source: First Berlin Equity Research, Expedeon AG

We have fine-tuned our 2018E - 2020E EBITDA/EBIT estimates to reflect the cost structure seen in Q3/18

In light of the profitability figures reported in 9M/18, we have revised down our reported EBITDA/EBIT forecasts for 2018E and the following years. We have particularly increased administrative expenses, which rose significantly following the consolidation of the acquired company TGR. We have retained our revenue and gross profit forecasts. As seen in the 9M/18 results, reported figures include non-cash items stemming from the share option plan as well as from the TGR acquisition. These items will continue to influence group numbers over the next few years. We have therefore revised our non-cash expense estimates to provide adjusted EBITDA and EBIT forecasts which are more relevant for valuation purposes. We have included estimated non-cash expenses in our operating cash flow forecast under other adjustments. Our old projections did not include an estimate of non-cash expenses. Changes to our forecasts are summarised in figure 2 below.

Figure 2: Changes to our forecasts (KPIs)

Reported estimates	2018E			2019E			2020E		
All figures in EUR '000	Old	New	% change	Old	New	% change	Old	New	% change
Revenues	13,414	13,414	0.0%	18,109	18,109	0.0%	22,093	22,093	0.0%
EBITDA	1,147	402	-65.0%	2,986	2,063	-30.9%	4,200	3,537	-15.8%
margin	8.6%	3.0%		16.5%	11.4%		19.0%	16.0%	
EBIT	-463	-1,991	-	1,266	-654	-	2,432	1,107	-54.5%
Net income / loss	-906	-2,534	-	670	-1,268	-	1,676	263	-84.3%
EPS (in EUR, dil.)	-0.02	-0.05	-	0.01	-0.02	-	0.03	0.00	-
Adjusted estimates*	2018E			2019E			2020E		
All figures in EUR '000	Old	New	% change	Old	New	% change	Old	New	% change
Other non-cash expenses	0	600		0	550			500	
EBITDA	1,147	1,002	-12.7%	2,986	2,613	-12.5%	4,200	4,037	-3.9%
EBIT	-463	-1,391	-	1,266	-104	-	2,432	1,607	-33.9%

* We have adjusted our estimates for other non-cash items including option compensation and accounting charges from the TGR acquisition

Source: First Berlin Equity Research



9M/18 balance sheet remains stable Expedeon reported a cash position of €4.2m (FY/17: €2.0m). Inventories and receivables rose to €2.2m (FY/17: €1.2m) and €2.8m (FY/17: €1.7m) respectively. Both changes are largely related to the TGR consolidation. Goodwill and other tangible assets increased to €51.4m from €41.7m in FY/17, mainly as a result of the purchase of TGR. Financial liabilities rose to €10.8m in 9M/18 (FY/17: €3.9m) and reflect the company's recent successful measures to expand debt financing to fuel further growth. Equity increased slightly to €44.2m (FY/17: €39.5m), corresponding to a high equity ratio of 69% (FY/17: 79%).

Cash Flow Operating cash flow came in at €-1.5m (9M/17: €3.0m). Cash flow from investment activities declined to €-6.4m (9M/17: €7.6m). This position chiefly reflects Expedeon's acquisition activity. Financing cash flow increased slightly to €10.2m in 9M/18 from €9.8m on 9M/17.

Company guidance 2018E unchanged Expedeon is still guiding towards total revenues of €13-14m (including the acquisition of TGR Biosciences which was closed in May 2018). Management is guiding towards positive EBITDA in 2018E.

Several commercial agreements regarding the company's core technologies for diagnostic and immunoassay applications closed over the last few months In September the company announced two supply agreements for its proprietary colloidal gold technology for diagnostic applications. The first deal was closed with the South Korean company PaxgenBio in September for the implementation in highly sensitive multiplex diagnostic kits. The second deal involved the Malaysian subsidiary of Revongen Corporation, which intends to use Expedeon's technology in its diagnostic lateral flow assays (LFA). Furthermore, Expedeon signed a supply and licensing agreement for its CaptSure immunoassay technology as well as Lightning-Link antibody labelling technology with the US life science company Quanterix Corporation. These deals will boost mid-term product sales in our view.



VALUATION MODEL

Buy rating reiterated at a slightly lower price target Based on our changed estimates, our DCF model yields a lower price target of €2.55 (previously €2.65). We reiterate our Buy recommendation.

DCF MODEL

Figure 3: DCF Model

All figures in EUR '000	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	13,414	18,109	22,093	26,954	32,614	39,463	47,356	56,827
NOPLAT	-1,991	-654	1,071	3,248	5,451	8,250	11,325	13,861
+ depreciation & amortisation	2,393	2,716	2,430	2,345	2,153	2,170	2,368	2,614
Net operating cash flow	402	2,063	3,501	5,593	7,603	10,420	13,693	16,475
- total investments (CAPEX and WC)	-2,093	-2,493	-2,539	-2,605	-2,521	-2,828	-2,957	-3,378
Capital expenditures	-1,101	-1,485	-1,524	-1,590	-1,500	-1,815	-1,705	-2,046
Working capital	-993	-1,008	-1,015	-1,015	-1,020	-1,012	-1,252	-1,332
Free cash flows (FCF)	-1,691	-430	962	2,987	5,083	7,593	10,736	13,098
PV of FCF's	-1,680	-390	794	2,250	3,490	4,753	6,128	6,816

All figures in EUR '000	
PV of FCFs in explicit period	56,868
PV of FCFs in terminal period	86,132
Enterprise value (EV)	143,000
+ Net cash / - net debt	-3,759
+ Investments / minority interests	0
Shareholder value	139,241
Shares outstanding	54,428
Fair value per share in EUR	2.55

		Terminal growth rate								
			1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	
Cost of equity	10.5%	WACC	6.7%	3.98	4.26	4.59	5.01	5.55	6.25	7.21
Pre-tax cost of debt	5.0%		7.7%	3.23	3.41	3.62	3.87	4.18	4.56	5.04
Tax rate	22.0%		8.7%	2.68	2.80	2.94	3.11	3.30	3.53	3.80
After-tax cost of debt	3.9%		9.7%	2.27	2.35	2.45	2.55	2.69	2.83	3.01
Share of equity capital	87.5%		10.7%	1.94	2.00	2.07	2.15	2.24	2.34	2.45
Share of debt capital	12.5%		11.7%	1.68	1.73	1.78	1.83	1.89	1.97	2.04
WACC	9.7%		12.7%	1.47	1.50	1.54	1.58	1.63	1.68	1.73

*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes

Source: First Berlin Equity Research



INCOME STATEMENT

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
Revenues	555	1,789	7,797	13,414	18,109	22,093
Cost of goods sold	-27	-1,026	-2,881	-3,689	-4,890	-5,855
Gross profit	528	763	4,916	9,725	13,220	16,239
Marketing & sales expenses	-646	-895	-1,870	-2,917	-3,622	-4,286
Administration expenses	-1,990	-2,771	-6,315	-7,914	-8,874	-9,058
Research & development	-1,411	-1,219	-794	-865	-1,358	-1,767
Other operating income (expenses)	-343	102	4	-20	-20	-20
EBITDA	-3,514	-3,208	-2,461	402	2,063	3,537
Operating income (EBIT)	-3,862	-4,020	-4,059	-1,991	-654	1,107
Net financial result	-178	-128	-163	-503	-755	-808
Pre-tax income (EBT)	-4,040	-4,148	-4,222	-2,494	-1,409	299
Tax result	29	-240	961	-40	141	-36
Net income / loss	-4,011	-4,388	-3,261	-2,534	-1,268	263
Other comprehensive income (currency related)	396	376	-1,468	0	0	0
Total comprehensive income	-3,615	-4,012	-4,729	-2,534	-1,268	263
Diluted EPS (in €)	-0.27	-0.18	-0.11	-0.05	-0.02	0.00
One-off expenses*		-764	-1,605			
Other non-cash expenses**				-600	-550	-500
Adjusted EBITDA stripping out other non-cash or one-off expenses	-3,514	-2,444	-856	1,002	2,613	4,037
Adjusted EBIT stripping out other non-cash or one-off expenses**	-3,862	-3,256	-2,454	-1,391	-104	1,607
*In 2016 and 2017 Sygnis incurred one-off integration and restructuring expenses related to the acquisitions of C.B.S. Scientific, Expedeon and Innova Biosciences						
**Based on other non-cash expenses seen in 9M/18 related to employee share option compensation and the acquisition of TGR, we have projected other non-cash expenses for the period 2018E-2020E						
Ratios						
Gross margin	95.1%	42.6%	63.0%	72.5%	73.0%	73.5%
EBITDA margin on revenues	n.m.	n.m.	n.m.	3.0%	11.4%	16.0%
EBITDA adj. margin on revenues	n.m.	n.m.	n.m.	7.5%	14.4%	18.3%
EBIT margin on revenues	n.m.	n.m.	n.m.	n.m.	-3.6%	5.0%
EBIT adj. margin on revenues	n.m.	n.m.	n.m.	n.m.	n.m.	7.3%
Net margin on revenues	n.m.	n.m.	n.m.	n.m.	-7.0%	1.2%
Tax rate	0.7%	-5.8%	22.8%	3.0%	10.0%	12.0%
Expenses as % of revenues						
Marketing & sales expenses	116.4%	50.0%	24.0%	21.7%	20.0%	19.4%
Administration expenses	358.6%	154.9%	81.0%	59.0%	49.0%	41.0%
Research & development	254.2%	68.1%	10.2%	6.5%	7.5%	8.0%
Y-Y Growth						
Revenues	41.6%	222.3%	335.8%	72.0%	35.0%	22.0%
Operating income (EBIT)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.



BALANCE SHEET

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
Assets						
Current assets, total	5,440	6,330	5,990	10,133	10,763	12,509
Cash and cash equivalents	4,557	3,795	1,954	4,937	4,444	5,098
Receivables	206	771	1,655	2,462	3,175	3,874
Inventories	100	1,092	1,234	1,587	1,996	2,390
Other current assets	577	672	1,147	1,147	1,147	1,147
Non-current assets, total	8,593	31,712	43,982	52,218	50,987	50,081
Property, plant & equipment	269	957	2,050	1,822	1,587	1,565
Goodwill	5,942	23,829	30,665	35,179	35,179	35,179
Intangible assets	1,678	6,926	11,267	15,217	14,221	13,337
Other assets	704	0	0	0	0	0
Total assets	14,033	38,042	49,972	62,352	61,750	62,590
Shareholders' equity & debt						
Current liabilities, total	1,707	3,198	4,605	6,767	5,583	5,660
Short-term debt	204	421	1,766	3,766	2,466	2,466
Accounts payable	322	656	849	1,011	1,126	1,202
Other current liabilities	1,181	2,121	1,990	1,990	1,991	1,991
Long-term liabilities, total	1,913	3,437	5,324	12,824	14,674	15,174
Long-term debt	1,913	2,285	3,947	10,847	12,147	12,147
Other liabilities and provisions	0	1,152	1,377	1,977	2,527	3,027
Shareholders' equity	10,413	31,407	40,043	42,761	41,493	41,756
Total consolidated equity and debt	14,033	38,042	49,972	62,352	61,750	62,590
Ratios						
Current ratio (x)	3.2	2.0	1.3	1.5	1.9	2.2
Quick ratio (x)	3.1	1.6	1.0	1.3	1.6	1.8
Net debt/(net cash)	-2,440	-1,089	3,759	9,676	10,169	9,515
Net gearing	-23.4%	-3.5%	9.4%	22.6%	24.5%	22.8%
Book value per share (in €)	0.78	1.43	0.96	0.84	0.77	0.76
Return on equity (ROE)	-38.5%	-14.0%	-8.1%	-5.9%	-3.1%	0.6%



CASH FLOW STATEMENT

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
Net income	-4,011	-4,388	-3,261	-2,534	-1,268	263
Depreciation and amortisation	348	812	1,598	2,393	2,716	2,430
Changes in working capital	-312	-653	-1,184	-998	-1,007	-1,016
Other adjustments	419	1,129	0	600	550	500
Operating cash flow	-3,556	-3,100	-2,847	-539	992	2,178
Interest expense	-259	-115	-38	0	0	0
Net operating cash flow	-3,815	-3,215	-2,885	-539	992	2,178
CapEx	-601	-673	-2,122	-1,101	-1,485	-1,524
Free cash flow	-4,416	-3,888	-5,007	-1,640	-493	653
Other investments and disposals	71	-1,129	-7,194	-6,229	0	0
Cash flow from investing	-530	-1,802	-9,316	-7,330	-1,485	-1,524
Debt financing, net	-345	129	1,095	6,300	0	0
Equity financing, net	5,086	4,115	9,330	4,552	0	0
Cash flow from financing	4,741	4,244	10,425	10,852	0	0
Exchange differences	397	11	-65	0	0	0
Net cash flow	793	-762	-1,841	2,983	-493	653
Cash, start of the year	3,764	4,557	3,795	1,954	4,937	4,444
Cash, end of the year	4,557	3,795	1,954	4,937	4,444	5,098
EBITDA/share (in €)	-0.26	-0.15	-0.06	0.01	0.04	0.06
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	119.5%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	n.m.	n.m.	n.m.	388.8%	67.4%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	13 August 2018	€1.43	BUY	€2.65
...	↓	↓	↓	↓
2	Today	€1.00	BUY	€2.55

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ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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