

Inno-Gene S.A.

Fair value: PLN 9.60

Update

Rating: n.a.

In 9M/16, Inno-Gene (IGN) generated sales of PLN 3.6m (+5.9% y-o-y). Due to a significantly higher share of personnel costs and D&A expenses EBIT (PLN -0.9m vs. PLN -0.2m) and net income (PLN -1.8m vs. PLN -0.1m) deteriorated y-o-y. However, despite a smaller-than-planned capital increase in Q4/15 (PLN 4m at PLN 8.10 per share vs. max. PLN 10.4m) and a negative operating cash flow in 9M/16 of PLN -3.4m, the company had estimated net cash of PLN 0.3m as of 30/09/2016.

In 2016, IGN announced several positive news. In Jul, its 100% subsidiary Centrum Badan DNA Sp. z.o.o (CBDNA) signed a distribution agreement relating to its diagnostic tests with the listed medical chain POLMED S.A. (has 22 own centers Poland-wide plus >2k co-operation partners). In Aug and Nov, Central Europe Genomics Center Sp. z.o.o, which is a 26.5%-73.5% JV of IGN and International Technology Ventures LLC with rights to the use of worldwide leading HiSeq X Ten WGS technology in Poland, announced that it had signed two agreements relating to financing of the JV: First, with the Medical University in Bialystok (max. PLN 30.1m), and second with Rubicon Partners Corporate Finance (PLN 30m, thereof PLN 5m own funds). CEGC will be the first commercial Whole-Genome Sequencing (WGS) laboratory in the CEE region and IGN's management expect it to generate sales from Q3/17E. One of its first orders will be sequencing of max. 10k genomes, for which CBDNA and its consortium partners secured approx. PLN 50m net of EU funding on 22 Dec. We believe that other significant contracts will be announced in Q1/17E.

Our new FV for IGN of PLN 9.60 consists of a SOTP with its diagnostic genetics segment (equity value of PLN 29.3m) and subsidiary CEGC (value of IGN's 26.5% stake: PLN 18.9m). Although the new conservative Polish government might limit financing of genetic tests (especially NIPT), IGN should be able to increase revenues and gross margins going forward due to a focus on high-margin NGS and WGS services as well as online distribution and export sales. Regarding CEGC, we believe the project is very interesting as it addresses the rapidly growing market of personalized medicine. However, (public) WGS labs e.g. in UK, Germany or Sweden already analyze genetic data of Europeans. Also, there is a risk that technological progress might lower the cost of sequencing one genome to <USD 1k soon, which would negatively affect CEGC' margins.

in PLNm	2014	2015	2016E	2017E	2018E	2019E
Net sales	4.49	4.20	4.50	5.69	7.51	10.08
EBITDA	1.41	-0.30	0.56	1.53	2.24	3.37
EBIT	0.90	-1.30	-0.78	0.11	0.75	1.81
Net income	1.79	-0.90	-1.70	-0.30	0.68	1.85
EPS	0.34	-0.16	-0.30	-0.05	0.12	0.32
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
RoE	109.49%	-23.11%	-38.35%	-8.84%	18.81%	37.83%
Net gearing	-47.76%	-19.62%	43.16%	65.61%	36.51%	-12.48%
EV/Sales	6.47x	6.92x	6.47x	5.11x	3.87x	2.89x
EV/EBITDA	20.64x	neg	51.56x	19.04x	13.01x	8.62x
P/E	14.02x	neg	neg	neg	40.48x	14.92x

Company profile

Inno-Gene S.A. is a Polish leader in the area of diagnostic genetics. The company's strategy foresees a concentration on tests, which are conducted with the NGS and WGS technology.

Website	www.inno-gene.eu
Sector	Biotechnology
Country	Poland
ISIN	PLINNGN00015
Reuters	IGNP.WA
Bloomberg	IGN PW

Share information

Last price	4.83
Number of shares (m)	5.70
Market cap. (PLNm)	27.54
Market cap. (EURm)	6.24
52-weeks range	PLN 7.11 / PLN 2.74
Average volume	3,460

Performance

4-weeks	21.36%
13-weeks	-13.60%
26-weeks	42.48%
52-weeks	1.68%
YTD	-3.40%

Shareholder structure

Jacek Wojciechowicz	44.17%
Venture Incubator S.A.*	12.54%
PZU TFI	6.02%
Free float	37.27%

* VC fund of the founders of the successful Polish SaaS provider LiveChat Software S.A.; shareholder since Jul 2016

Financial calendar

Q4/16 results (expect.) February 13, 2017

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9M 2016 results

Revenues and Profitability

In 9M/16, Inno-Gene's consolidated revenues increased by 5.9% y-o-y to PLN 3.6m. While giving up sales of material for diagnostic tests negatively affected revenues in the first months of 2016, we believe that the focus on higher-margin own NGS-based diagnostic tests was a good move. In our opinion, the main reason for the revenue growth in 9M/16 was the new internal sales team (currently three people), which since January 2015 has acquired more than 250 new contracts in Poland.

in PLNm	9M/16	9M/15	change (%)
Net sales	3.55	3.35	5.9%
EBITDA	0.27	0.49	-45.9%
<i>EBITDA margin</i>	<i>7.5%</i>	<i>14.7%</i>	
EBIT	-0.88	-0.19	374.6%
<i>EBIT margin</i>	<i>-24.8%</i>	<i>-5.5%</i>	
Net income	-1.79	-0.11	1576.7%
<i>Net margin</i>	<i>-50.5%</i>	<i>-3.2%</i>	

Source: Company information, East Value Research GmbH

EBIT (PLN -0.9m vs. PLN -0.2m) and net income (PLN -1.8m vs. PLN -0.1m) deteriorated compared to 9M/15 due to investments associated with the sales team, which resulted in a 46.2% increase of personnel costs y-o-y, as well as 69.1% higher Depreciation & Amortization expenses that stemmed from completed R&D projects.

Balance sheet and Cash flow

At the end of 9M/16, Inno-Gene had equity of PLN 3.5m, which corresponded to a share in the balance sheet total of 18.5%. Compared to the previous year, intangible assets increased from PLN 224k to PLN 10.9m due to capitalization of expenses relating to completed R&D projects.

Between January and September 2016, the company generated an operating cash flow of PLN -3.4m (9M/15: PLN -305k), which resulted from a higher net loss and significantly higher investments in working capital y-o-y. While cash flow from investing equaled PLN 384k (PLN -721k), cash flow from financing reached PLN 1.7m (9M/15: PLN 449k) as in 9M/16 Inno-Gene raised new debt. As of 30 September 2016, cash equaled PLN 319k (PLN 1.6m).

Changes to our forecasts

Revenues and Profitability

In 2016, Inno-Gene published several positive news. In July, its 100% subsidiary Centrum Badan DNA Sp. z.o.o (CBDNA) signed a distribution agreement relating to its diagnostic tests with the listed medical chain POLMED S.A. (has 22 own centers Poland-wide plus >2k co-operation partners). Together with IGN's own sales team and a stronger focus on online distribution, this should significantly strengthen the company's sales power in its local market. While we see a risk that the conservative Polish government might limit financing of genetic tests (especially Non-Invasive Prenatal Tests), we believe that IGN could accelerate sales growth and improve gross margins by focusing on high-margin NGS and WGS services as well as acquiring clients in Western Europe, where it can benefit from its significantly lower costs. Together with its two consortium partners, Institute for Bio-organic Chemistry and Technical University in Poznan, CBDNA also signed a contract on 22 December, which foresees EU funding of approx. PLN 50m net for bioinformatics and sequencing of max. 10k Polish genomes that in the future might be used e.g. by pharma companies in drug development.

Another shareholding of IGN, Central Europe Genomics Center Sp. z.o.o (26.5%-73.5% JV of IGN and International Technology Ventures LLC with rights to the use of worldwide leading HiSeq X Ten WGS technology in Poland), announced in August and November that it had signed two agreements for financing of the JV that will be used to purchase WGS equipment with a capacity of 18k genomes/year: With the Medical University in Bialystok, which is supposed to contribute max. PLN 30.1m, and Rubicon Partners Corporate Finance, which will provide PLN 5m to the project itself and arrange PLN 25m of additional financing in Q1/17E. CEGC will be the first commercial WGS laboratory in the CEE region, which will provide sequencing of large gene populations and the corresponding bioinformatic services. While in our view the project is very interesting as it addresses the rapidly-growing market for personalized medicine, we also see risks: (1) as there are already (public) WGS laboratories in Europe e.g. in UK, Germany, Sweden, commercial clients do not necessarily need to use the services of CEGC in order to get access to genetic data of Europeans and (2) due to technological progress in a few years the price of sequencing one genome could fall to <USD 1k/genome, which would negatively affect CEGC' margins. According to our research, companies such as Roche or Thermo Fisher Scientific are already working on such devices.

We have changed our valuation model of Inno-Gene, which now consists of a Sum-of-the-Parts valuation of the diagnostic genetics business and the WGS center CEGC. Regarding the diagnostic genetics business, we have significantly lowered the forecasts for full-year 2016 compared to our Base case scenario in the last update from October 2015 in order to account for (1) significantly lower-than-expected proceeds from the capital increase in Q4/15 (PLN 4m vs. max. PLN 10.4m), which mainly negatively affected IGN's ability to establish sales abroad and develop new NGS-based tests and (2) a more difficult market environment in Poland due to the new conservative government, which has already made clear that it is not a fan of diagnostic genetics (especially NIPT) due to ethical reasons.

For full-year 2016, we now assume sales of PLN 4.5m (previously: PLN 6.8m) and a gross margin of 34% (40.5%), which together with higher D&A expenses (capitalized R&D) as well as a negative contribution of 26.5% at-equity shareholding CEGC should result in a net income of PLN -1.7m. However, as the positive outlook for the diagnostic genetics market remains unchanged and IGN should also be able to benefit from an increasing focus on online distribution and its lower costs on foreign markets, we remain optimistic when it comes to sales and gross margin growth in 2017E and beyond. Due to an increasing share of own, more advanced NGS-based diagnostic tests, which management expect to reach 70% by 2018E (EVRe: currently c. 20%), and expansion abroad, we have assumed a CAGR for the number of tests sold of 10.8% (previously: 23.1%) and 10% (10.9%) for the average sale price. We still believe that an EBIT margin of c. 23% will be reached in the long run due to a higher share of more profitable own NGS-based tests and export sales.

in PLNm	2016E		2017E		2018E		2019E	
	new	old	new	old	new	old	new	old
Number of tests sold	11,849	17,649	13,626	26,142	16,352	35,579	19,949	44,809
Average price per unit (PLN)	380	386	417	433	459	485	505	543
Gross margin	34.0%	40.5%	40.5%	41.0%	41.0%	41.5%	41.5%	42.0%
Total revenues	4.50	6.82	5.69	11.31	7.51	17.25	10.08	24.34

Source: East Value Research GmbH

For CEGC, in which IGN holds a 26.5% stake, we estimate that it will start operations in Q3/17E. In our view, first revenues will come from the "Genomic Map of Poland" project, which foresees sequencing of max. 10k genomes, as well as additional contracts with public institutions from Poland and other CEE countries, which have a total volume of >50k genomes and should be signed in Q1/17E. In general, CEGC wants to take over sequencing and analysis of genetic samples from CEE region, which until now have been sent to commercial WGS centers in China (BGI; global market leader with a share of 20%) and South Korea (Makrogen).

Regarding profitability, we believe that at the beginning it will be in the single-digits as public contracts are characterized by lower profitability. As orders for WGS services from commercial clients increase, the EBITDA margin should however go up to >25% in the long run, even though we have assumed a y-o-y decline of the price per genetic sample of 4.1% due to technological progress.

We would like to emphasize that in our model for CEGC we have not accounted for any revenues relating to bioinformatic services for commercial clients e.g. Big Pharma. In the future, CEGC plans to offer pharma companies or cancer clinics access to its gene database and respective bioinformatic services, which these clients could use in the development of new drugs or personalized treatments. In our view, the service will be offered in a subscription model. According to GrandViewResearch, personalized medicine is a huge trend in the global healthcare industry. By 2022E, the market is expected to grow at a CAGR of 11.8% to a value of USD 2.5tr, with Next-Generation Sequencing and Whole-Genome Technology being two of the market drivers. Regarding the global market for NGS (incl. Whole Genome Sequencing), GrandViewResearch expects it to reach a value of c. USD 14bn by 2024E.

in PLNm	2017E	2018E	2019E
Volume of public WGS projects (in k)	0.20	6.00	9.00
Volume of private WGS services (in k)	0.00	0.50	1.50
Average price in USD	1,500	1,439	1,380
USD-PLN rate	4.00	4.00	4.00
<i>EBITDA margin</i>	<i>4.0%</i>	<i>9.0%</i>	<i>14.0%</i>
Total revenues	1.20	37.41	57.98

Source: East Value Research GmbH

in PLNm	Q1/14	Q2/14	Q3/14	Q4/14*	2014	Q1/15	Q2/15	Q3/15	Q4/15	2015
Net sales	0.55	1.20	1.63	1.11	4.49	1.13	0.85	1.37	0.85	4.20
<i>y-o-y change</i>	<i>-32.3%</i>	<i>80.2%</i>	<i>148.2%</i>	<i>-46.2%</i>	<i>6.9%</i>	<i>104.4%</i>	<i>-81.0%</i>	<i>-67.4%</i>	<i>-23.5%</i>	<i>-6.4%</i>
EBITDA	-0.30	0.31	0.66	0.73	1.41	0.27	-0.05	0.28	-0.79	-0.30
<i>EBITDA margin</i>	<i>-53.6%</i>	<i>25.8%</i>	<i>40.6%</i>	<i>65.9%</i>	<i>31.4%</i>	<i>23.6%</i>	<i>-5.7%</i>	<i>20.1%</i>	<i>-93.4%</i>	<i>-7.2%</i>
EBIT	-0.39	0.18	0.51	0.60	0.90	-0.01	-0.21	0.03	-1.11	-1.30
<i>EBIT margin</i>	<i>-71.4%</i>	<i>14.9%</i>	<i>31.5%</i>	<i>54.2%</i>	<i>20.0%</i>	<i>-0.9%</i>	<i>-24.4%</i>	<i>2.4%</i>	<i>-131.0%</i>	<i>-30.9%</i>
Net income	-0.28	0.15	0.39	1.53	1.79	-0.01	-0.14	0.04	-0.79	-0.90
<i>Net margin</i>	<i>-50.4%</i>	<i>12.5%</i>	<i>24.2%</i>	<i>137.3%</i>	<i>39.9%</i>	<i>-0.7%</i>	<i>-16.0%</i>	<i>2.7%</i>	<i>-93.3%</i>	<i>-21.4%</i>

in PLNm	Q1/16	Q2/16	Q3/16	Q4/16E	2016E
Net sales	1.14	0.88	1.52	0.95	4.50
<i>y-o-y change</i>	<i>1.4%</i>	<i>3.6%</i>	<i>11.1%</i>	<i>111.2%</i>	<i>7.0%</i>
EBITDA	-0.15	-0.03	0.44	0.30	0.56
<i>EBITDA margin</i>	<i>-13.2%</i>	<i>-2.8%</i>	<i>29.1%</i>	<i>31.5%</i>	<i>12.5%</i>
EBIT	-0.53	-0.41	0.06	0.10	-0.78
<i>EBIT margin</i>	<i>-46.6%</i>	<i>-45.9%</i>	<i>4.0%</i>	<i>10.3%</i>	<i>-17.4%</i>
Net income	-0.77	-1.14	0.12	0.10	-1.70
<i>Net margin</i>	<i>-67.2%</i>	<i>-129.4%</i>	<i>7.8%</i>	<i>10.2%</i>	<i>-37.8%</i>

* Q4/14 results were impacted by a one-off gain of PLN 769k from the sale of 100% in NewLab System Sp. Z.o.o

Source: Company information, East Value Research GmbH

CAPEX and Working capital

For Inno-Gene, we expect that the share of gross CAPEX in total sales will amount to <7% in the long run, while the cash conversion cycle should equal -10 days. When it comes to its at-equity shareholding CEGC, we believe that in 2017E it will spend PLN 45m on CAPEX (especially the HiSeq X Ten WGS devices) and PLN 4m on working capital. However, we estimate that in the long run the share of gross CAPEX in total sales will amount to c. 5% and that of investments in working capital 0.5%. So far, Inno-Gene has invested PLN 1.5m in CEGC, while International Technology Ventures LLC has provided contacts and know-how to the project. Other parties, which are supposed to invest in CEGC, are the Medical University in Bialystok (max. PLN 30.1m) and Rubicon Partners Corporate Finance (PLN 30m, thereof PLN 5m of own funds).

Valuation

We have valued Inno-Gene by using a Sum-of-the Parts model, which derives a fair value of the stock of PLN 9.60. Previously, our valuation consisted of a scenario analysis of IGN's diagnostic genetics business and amounted to PLN 10.40-PLN 15.50 per share. However, it was based on the assumption that IGN would raise PLN 10.4m of additional capital in Q4/15 (1.3m new shares at PLN 8 per share).

Diagnostic genetics

in PLNm	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E			
Net sales	5.69	7.51	10.08	13.08	16.55	20.38	24.66	29.44	35.13			
(y-o-y change)	26.5%	32.0%	34.2%	29.8%	26.5%	23.2%	21.0%	19.4%	19.4%			
EBIT	0.11	0.75	1.81	2.81	3.81	4.71	5.67	6.74	8.01			
(operating margin)	2.0%	10.0%	18.0%	21.5%	23.0%	23.1%	23.0%	22.9%	22.8%			
NOPLAT	0.09	0.61	1.47	2.28	3.08	3.81	4.60	5.46	6.49			
+ Depreciation & amortisation	1.41	1.48	1.56	1.64	1.72	1.80	1.89	1.99	2.09			
= Net operating cash flow	1.51	2.09	3.03	3.91	4.80	5.62	6.49	7.45	8.58			
- Total investments (Capex and WC)	-1.68	-1.54	-1.43	-1.42	-1.41	-1.44	-1.47	-1.51	-1.47			
Capital expenditure	-1.50	-1.57	-1.64	-1.72	-1.80	-1.89	-1.98	-2.08	-2.18			
Working capital	-0.18	0.03	0.22	0.30	0.40	0.45	0.51	0.57	0.71			
= Free cash flow (FCF)	-0.18	0.56	1.60	2.49	3.39	4.18	5.02	5.94	7.11			
PV of FCFs	-0.15	0.43	1.09	1.50	1.79	1.94	2.06	2.14	2.26			
PV of FCFs in explicit period	13.06											
PV of FCFs in terminal period	18.39											
Enterprise value (EV)	31.46											
+ Net cash / - net debt (31 December 2016)	-1.54											
+ Investments / - minorities	-0.64											
Shareholder value	29.28											
Number of shares outstanding (m)	5.70											
						Terminal EBIT margin						
WACC	13.6%					19.9%	20.9%	21.9%	22.9%	23.9%	24.9%	25.9%
Cost of equity	13.6%	9.6%	9.56	9.90	10.23	10.56	10.90	11.23	11.57			
Pre-tax cost of debt	8.0%	10.6%	8.13	8.40	8.67	8.94	9.21	9.49	9.76			
Normal tax rate	19.0%	11.6%	7.00	7.23	7.45	7.68	7.90	8.13	8.35			
After-tax cost of debt	6.5%	12.6%	6.10	6.29	6.47	6.66	6.85	7.04	7.22			
Share of equity	100.0%	13.6%	5.36	5.52	5.67	5.83	5.99	6.15	6.31			
Share of debt	0.0%	14.6%	4.74	4.88	5.01	5.15	5.28	5.42	5.55			
Fair value per share in PLN (today)	5.14	15.6%	4.22	4.34	4.45	4.57	4.68	4.80	4.92			
Fair value per share in PLN (in 12 months)	5.83											

Source: East Value Research GmbH

Central Europe Genetics Center Sp. z.o.o (26.5% are owned by Inno-Gene)

in PLNm	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net sales	1.20	37.41	57.98	79.45	91.46	102.36	119.24	132.55	149.81
(y-o-y change)	n.a	3017.7%	55.0%	37.0%	15.1%	11.9%	16.5%	11.2%	13.0%
EBIT	-0.10	1.50	5.22	11.12	16.01	21.50	24.92	27.57	31.01
(operating margin)	-8.0%	4.0%	9.0%	14.0%	17.5%	21.0%	20.9%	20.8%	20.7%
NOPLAT	-0.08	1.21	4.23	9.01	12.96	17.41	20.19	22.33	25.12
+ Depreciation & amortisation	0.14	1.87	2.90	3.97	4.57	5.12	5.96	6.63	7.49
= Net operating cash flow	0.07	3.08	7.13	12.98	17.54	22.53	26.15	28.96	32.61
- Total investments (Capex and WC)	-49.00	-2.56	-3.69	-4.87	-5.53	-6.13	-7.06	-7.79	-8.74
Capital expenditure	-45.00	-2.37	-3.40	-4.47	-5.07	-5.62	-6.46	-7.13	-7.99
Working capital	-4.00	-0.19	-0.29	-0.40	-0.46	-0.51	-0.60	-0.66	-0.75
= Free cash flow (FCF)	-48.93	0.53	3.44	8.11	12.01	16.40	19.09	21.17	23.87
PV of FCFs	-43.08	0.41	2.34	4.87	6.35	7.63	7.82	7.64	7.58
PV of FCFs in explicit period	1.57								
PV of FCFs in terminal period	69.63								
Enterprise value (EV)	71.20								
+ Net cash / - net debt (31 December 2016)	0.10								
+ Investments / - minorities	0.00								
Shareholder value	71.30								
WACC	13.6%								
Cost of equity	13.6%								
Pre-tax cost of debt	8.0%								
Normal tax rate	19.0%								
After-tax cost of debt	6.5%								
Share of equity	100.0%								
Share of debt	0.0%								

Source: East Value Research GmbH

Sum-of-the-Parts calculation

in PLNm	
Diagnostic genetics	
DCF-based fair equity value	29.28
CEGC	
DCF-based fair equity value	71.30
Implied equity value of IGN's 26.5% share	18.89
Sum	48.17
Number of IGN's shares	5.70
Implied equity value per share (today)	8.45
Implied equity value per share (in 12-months)	9.60

Source: East Value Research GmbH

Peer Group Analysis

Below are 10 companies, which according to our research operate in the area of diagnostic genetics, however mostly in Western markets and Asia. Apart from some public health facilities, which conduct genetic tests, there are only two private companies in Poland, which compete with Inno-Gene: Genomed S.A. and Centrum Medyczne MEDGEN Sp. z.o.o from Warsaw.

- (1) *Genomed S.A.*: Genomed, which is listed in the NewConnect segment of the WSE, is the Polish market leader in the area of services relating to DNA analysis and diagnostics of genetic illnesses. The company provides DNA sequencing to >300 research centers, biotech firms and medical institutions. The technology, on which Genomed is working, allows reading and analyzing all known 6,500 genes that are related to genetic illnesses. Moreover, it is able to analyze gene sequences in order to find all changes relating to inherited illnesses. Apart from traditional DNA sequencing, Genomed also offers NIPT as well as WGS services. However, according to our research the company does not have an own WGS lab and its foreign partner conducts them at a significantly higher price than CEGC plans to offer. In 2015, Genomed generated revenues of PLN 9.7m and an EBITDA margin of 9.4%. Around 4% of its total sales stemmed from abroad.
- (2) *Centrum Medyczne MEDGEN Sp. z.o.o.*: MEDGEN's doctors, diagnostic specialists, molecular biologists and medical analysts cooperate with companies and research institutions in Poland and abroad. The company offers genetic consultancy as well as treatment of many different kinds of genetic illnesses and preconditions.
- (3) *Seegene Inc.*: Seegene, which is headquartered in Seoul/Korea, is engaged in the development of molecular diagnostic reagents. In particular, the company provides inspection products such as allergic respiratory pathogens, sexually transmitted disease pathogens, human papilloma virus (HPV) and drug resistance inspection products, among others. Also, it supplies automatic real-time detection instruments. In 2015, Seegene had revenues of KRW 65.1bn and an EBITDA margin of 22.5%. It has a distribution agreement with Inno-Gene's former subsidiary NewLab Systems Sp. z.o.o (was sold in October 2014 to its CEO for PLN 100k) relating to market introduction of its products in the CEE region.

According to Thomson Reuters Eikon, Seegene is trading at an EV/Sales (NTM) of 10.3x and EV/EBITDA (NTM) of 38.6x.

- (4) *Illumina Inc.:* Headquartered in San Diego/US, Illumina is a developer and manufacturer of life science tools and integrated systems for the analysis of genetic variations and functions. The company is organized in two business segments: Life Sciences and Diagnostics. The Life Sciences business unit includes all products and services relating to its sequencing, BeadArray, VeraCode, and real-time PCR technologies, while its Diagnostics segment focuses on molecular diagnostics. Illumina's customers include genomic research centers, academic institutions, government laboratories, and clinical research organizations, as well as pharmaceutical, biotechnology, agrigenomics, and consumer genomics companies. In 2015, Illumina generated total sales of USD 2.2bn and an EBITDA margin of 33.4%.

According to Thomson Reuters Eikon, Illumina is trading at an EV/Sales (NTM) of 7x and EV/EBITDA (NTM) of 23.7x.

- (5) *Thermo Fisher Scientific Inc.:* Thermo Fisher Scientific, which is based in Waltham/US, is the world leader in the area of services that accelerate life sciences research, solve complex analytical problems, improve patient diagnostics and laboratory productivity. In Q4/14, the company took over Life Technologies, which manufactures serums and other cell growth media e.g. enzymes as well as diagnostic products such as standard plates and tubes, for USD 13.6bn. Life Technologies' business is now part of the segments "Life Sciences Solutions" and "Specialty Diagnostics". In 2015, Thermo Fisher Scientific reported sales of USD 17bn and an EBITDA margin of 24.7%. "Life Science Solutions" and "Specialty Diagnostics" made up 45% of total sales.

According to Thomson Reuters Eikon, Thermo Fisher Scientific is trading at an EV/Sales (NTM) of 3.7x and EV/EBITDA (NTM) of 14.3x.

- (6) *Quest Diagnostics Inc.:* Quest Diagnostics, which is based in Madison/US, is a provider of diagnostic testing services. The company offers access to diagnostic testing services through its network of laboratories and own service centers. It provides clinical testing, including gene-based and esoteric testing and anatomic pathology services e.g. for doctors, individual patients, biotech companies and law enforcement agencies as well as risk assessment services for the life insurance industry. In 2015, Quest Diagnostics generated sales of USD 7.5bn and an EBITDA margin of 18.8%.

According to Thomson Reuters Eikon, Quest Diagnostics is trading at an EV/Sales (NTM) of 2.1x and EV/EBITDA (NTM) of 10.6x.

- (7) *Laboratory Corp. of America Holdings Inc.:* Laboratory Corporation of America Holdings, which is headquartered in Burlington/US, is a clinical laboratory company. Through a national network of laboratories, it offers a range of testing services used by healthcare practitioners in testing, patient diagnosis, and in the monitoring and treatment of disease. In addition, it has developed specialty and niche operations based on certain types of specialized testing capabilities and client requirements, such as oncology testing, human immunodeficiency virus (HIV) genotyping and phenotyping, diagnostic genetics and clinical research trials. In 2015, Laboratory Corp. of America Holdings generated total revenues of USD 8.7bn and an EBITDA margin of 18.1%.

According to Thomson Reuters Eikon, Laboratory Corp. is trading at an EV/Sales (NTM) of 1.9x and EV/EBITDA (NTM) of 9.2x.

- (8) *Genomic Health Inc.:* Genomic Health, which is based in Redwood City/US, is a molecular diagnostics company focused on the development and commercialization of genomic-based clinical laboratory services that analyze the underlying biology of cancer. In 2015, it generated revenues of USD 287.5m and an EBITDA margin of -9.4%.

According to Thomson Reuters Eikon, Genomic Health is trading at an EV/Sales (NTM) of 2.5x and EV/EBITDA (NTM) of 61.6x.

- (9) *Myriad Genetics Inc.:* Myriad Genetics, which is headquartered in Salt Lake City/US, is a molecular diagnostic company. It is focused on developing and marketing predictive medicine, personalized medicine and prognostic medicine tests. Its technologies include those for biomarker discovery, high-throughput deoxyribo nucleic acid (DNA) sequencing, ribo nucleic acid (RNA) expression and multiplex protein analysis. In fiscal-year 2015/16, it had revenues of USD 753.8m at an EBITDA margin of 25.7%.

According to Thomson Reuters Eikon, Myriad Genetics is trading at an EV/Sales (NTM) of 1.6x and EV/EBITDA (NTM) of 8.9x.

- (10) *Roche Holding AG:* Roche, which is based in Basel/Switzerland, is the world market leader in biotech, oncology, in-vitro diagnostics and hospital markets. In 2015, it had total sales of CHF 48.1bn, thereof CHF 10.8bn in the segment Diagnostics, which generated an EBIT margin of 11.9%. Molecular Diagnostics made up 16% of total diagnostic sales or CHF 1.7bn.

According to Thomson Reuters Eikon, Roche is trading at an EV/Sales (NTM) of 4.2x and EV/EBITDA (NTM) of 10.2x.

Profit and loss statement

in PLNm	2014	2015	2016E	2017E	2018E	2019E
Revenues	4.49	4.20	4.50	5.69	7.51	10.08
Cost of goods sold	-2.62	-3.39	-2.97	-3.38	-4.43	-5.89
Gross profit	1.88	0.81	1.53	2.30	3.08	4.18
Other operating income	0.81	1.31	1.33	1.39	1.46	1.53
Personnel expenses	-1.04	-2.02	-2.07	-2.11	-2.15	-2.20
Other operating expenses	-0.24	-0.41	-0.22	-0.06	-0.15	-0.15
EBITDA	1.41	-0.30	0.56	1.53	2.24	3.37
Depreciation & amortisation	-0.51	-1.00	-1.35	-1.41	-1.48	-1.56
Operating income	0.90	-1.30	-0.78	0.11	0.75	1.81
Net financial result	-0.17	-0.07	-1.45	-0.50	0.20	0.70
Gain/loss from sale of shareholdings	0.87	0.00	0.00	0.00	0.00	0.00
Write-downs	-0.02	-0.01	0.00	0.00	0.00	0.00
EBT	1.58	-1.38	-2.23	-0.39	0.95	2.51
Income taxes	-0.03	0.19	0.42	0.07	-0.18	-0.48
Minorities	0.24	0.29	0.11	0.01	-0.09	-0.19
Net income / loss	1.79	-0.90	-1.70	-0.30	0.68	1.85
EPS	0.34	-0.16	-0.30	-0.05	0.12	0.32
DPS	0.00	0.00	0.00	0.00	0.00	0.00
Share in total sales						
Revenues	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-58.25 %	-80.66 %	-66.00 %	-59.50 %	-59.00 %	-58.50 %
Gross profit	41.75 %	19.34 %	34.00 %	40.50 %	41.00 %	41.50 %
Other operating income	18.09 %	31.22 %	29.47 %	24.46 %	19.46 %	15.22 %
Personnel expenses	-23.05 %	-47.96 %	-46.00 %	-37.09 %	-28.66 %	-21.78 %
Other operating expenses	-5.42 %	-9.78 %	-4.93 %	-1.01 %	-2.03 %	-1.47 %
EBITDA	31.37 %	-7.19 %	12.54 %	26.85 %	29.77 %	33.47 %
Depreciation & amortisation	-11.32 %	-23.73 %	-29.94 %	-24.85 %	-19.77 %	-15.47 %
Operating income	20.05 %	-30.92 %	-17.40 %	2.00 %	10.00 %	18.00 %
Net financial result	-3.84 %	-1.66 %	-32.25 %	-8.79 %	2.66 %	6.95 %
Gain/loss from sale of shareholdings	19.34 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Write-downs	-0.36 %	-0.20 %	0.00 %	0.00 %	0.00 %	0.00 %
EBT	35.19 %	-32.78 %	-49.65 %	-6.79 %	12.66 %	24.95 %
Income taxes	-0.62 %	4.51 %	9.43 %	1.29 %	-2.41 %	-4.74 %
Minorities	5.33 %	6.84 %	2.45 %	0.18 %	-1.20 %	-1.89 %
Net income / loss	39.89 %	-21.43 %	-37.77 %	-5.32 %	9.06 %	18.32 %

Balance Sheet

in PLNm	2014	2015	2016E	2017E	2018E	2019E
Cash and equivalents	1.80	1.65	0.63	0.95	1.19	2.90
Financial assets	0.00	0.00	0.00	0.00	0.00	0.00
Inventories	0.30	0.05	0.04	0.05	0.07	0.09
Trade accounts and notes receivables	0.42	0.63	0.65	0.80	1.02	1.32
Other current assets	9.65	1.27	1.14	1.02	0.92	0.83
Current assets, total	12.17	3.60	2.47	2.83	3.20	5.14
Property, plant and equipment	3.31	2.44	2.10	2.12	2.14	2.16
Other intangible assets	0.36	11.59	11.00	11.05	11.10	11.15
Goodwill	0.01	0.00	0.00	0.00	0.00	0.00
Other assets	0.84	2.20	2.24	2.29	2.33	2.38
Long-term investments	0.01	1.00	1.51	1.53	1.54	1.56
Deferred tax assets	0.15	0.37	0.69	0.75	0.62	0.27
Non-current assets, total	4.66	17.60	17.55	17.73	17.74	17.52
Total assets	16.83	21.20	20.02	20.56	20.93	22.66
Trade payables	0.65	0.65	0.56	0.62	0.79	1.02
Other short-term liabilities	0.70	1.46	1.52	1.87	2.39	3.10
Short-term financial debt	0.32	0.34	0.00	0.00	0.00	0.00
Pension provisions	0.05	0.07	0.08	0.10	0.13	0.18
Provisions	0.02	0.07	0.08	0.10	0.13	0.18
Current liabilities, total	1.74	2.60	2.23	2.68	3.44	4.48
Long-term financial debt	0.23	0.20	2.10	3.00	2.50	2.00
Other long-term liabilities	11.29	12.27	11.05	10.49	9.97	9.47
Deferred tax liabilities	0.07	0.10	0.42	0.48	0.35	0.00
Long-term liabilities, total	11.59	12.57	13.57	13.97	12.82	11.47
Total liabilities	13.33	15.18	15.80	16.66	16.26	15.95
Shareholders equity, total	2.52	5.28	3.58	3.28	3.96	5.80
Minority interests	0.98	0.75	0.64	0.63	0.72	0.91
Total liabilities and equity	16.83	21.20	20.02	20.56	20.93	22.66

Cash Flow Statement

in PLNm	2014	2015	2016E	2017E	2018E	2019E
Net income / loss	1.79	-0.90	-1.70	-0.30	0.68	1.85
Depreciation & amortisation	0.51	1.00	1.35	1.41	1.48	1.56
Change of working capital	-0.13	8.78	-1.16	-0.18	0.03	0.22
Others	-0.36	0.42	0.01	0.02	0.03	0.05
Net operating cash flow	1.81	9.30	-1.50	0.95	2.23	3.67
Cash flow from investing	-0.97	-13.05	-0.92	-1.50	-1.57	-1.64
Free cash flow	0.84	-3.75	-2.43	-0.55	0.66	2.03
Cash flow from financing	0.12	3.61	1.41	0.87	-0.42	-0.31
Change of cash	0.97	-0.15	-1.02	0.32	0.24	1.71
Cash at the beginning of the period	0.83	1.80	1.65	0.63	0.95	1.19
Cash at the end of the period	1.80	1.65	0.63	0.95	1.19	2.90

Financial ratios

Fiscal year	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E
Profitability and balance sheet quality								
Gross margin	41.75%	19.34%	34.00%	40.50%	41.00%	41.50%	42.00%	41.90%
EBITDA margin	31.37%	-7.19%	12.54%	26.85%	29.77%	33.47%	34.01%	33.39%
EBIT margin	20.05%	-30.92%	-17.40%	2.00%	10.00%	18.00%	21.50%	23.00%
Net margin	39.89%	-21.43%	-37.77%	-5.32%	9.06%	18.32%	22.63%	24.60%
Return on equity (ROE)	109.49%	-23.11%	-38.35%	-8.84%	18.81%	37.83%	40.64%	37.69%
Return on assets (ROA)	11.68%	-3.92%	-1.24%	0.96%	2.29%	5.06%	6.74%	7.67%
Return on capital employed (ROCE)	5.87%	-6.03%	-3.56%	0.52%	3.48%	8.08%	11.14%	12.86%
Economic Value Added (in PLN)	-1.17	-3.65	-3.05	-2.34	-1.77	-1.00	-0.50	-0.17
Net debt (in PLNm)	-1.20	-1.04	1.54	2.15	1.44	-0.72	-4.47	-9.25
Net gearing	-47.76%	-19.62%	43.16%	65.61%	36.51%	-12.48%	-50.98%	-72.10%
Equity ratio	14.95%	24.89%	17.88%	15.94%	18.90%	25.61%	33.58%	41.54%
Current ratio	6.98	1.38	1.11	1.05	0.93	1.15	1.55	1.93
Quick ratio	1.27	0.88	0.58	0.65	0.64	0.94	1.39	1.81
Net interest cover	5.22	-18.58	-0.54	0.23	-3.75	-2.59	-2.34	-2.24
Net debt/EBITDA	-0.85	3.43	2.74	1.41	0.65	-0.21	-1.00	-1.67
Tangible BVPS	0.48	0.94	0.63	0.57	0.69	1.02	1.54	2.25
CAPEX/Sales	18.20%	293.92%	20.55%	26.35%	20.91%	16.32%	13.17%	10.90%
Working capital/Sales	-50.76%	-296.01%	-250.97%	-195.17%	-148.31%	-112.68%	-89.13%	-72.86%
Cash Conversion Cycle (in days)	-15	-10	-10	-10	-10	-10	-10	-10
Trading multiples								
EV/Sales	6.47	6.92	6.47	5.11	3.87	2.89	2.22	1.76
EV/EBITDA	20.64	-96.29	51.56	19.04	13.01	8.62	6.54	5.26
EV/EBIT	32.29	-22.38	-37.17	255.62	38.73	16.03	10.34	7.64
P/Tangible BVPS	10.02	5.15	7.69	8.40	6.96	4.75	3.14	2.15
P/E	14.02	-30.19	-16.21	-90.92	40.48	14.92	9.30	6.77
P/FCF	32.61	-7.34	-11.35	-50.07	41.68	13.59	11.92	8.47

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