

Recommendation:
BUY (BUY)

Risk:
HIGH (High)

Price Target:
EUR 4.60 (4.00)

03 December 2014

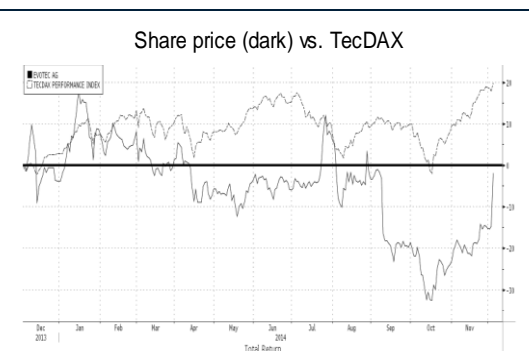
Major strategic alliance with Sanofi

With a lot of interaction points in both core segments

- **Multifaceted collaboration:** Evotec is in final exclusive negotiations with Sanofi on a major multi-component strategic alliance over the next five years. The deal is expected to be signed in 1H15 and will comprise **three initiatives**:
- **1) Pipeline-building collaboration** in oncology. Among others, Evotec will license from Sanofi five well-advanced preclinical projects in oncology that will be progressed to IND (within 24 months) jointly by Sanofi and Evotec. **2) Outsourcing alliance** including acquisition of Sanofi's drug discovery operations in Toulouse (highly productive small molecule (SM) discovery site with ~200 scientists) for compound management and drug discovery services. **3) Combining SM libraries:** The libraries of Sanofi (1.3m SM) and Evotec (0.4m SM) will be combined, creating a very large source for drug discovery.
- **Impressive financial terms:** Evotec will receive guaranteed commitment of ~EUR 250m over the next five years and upfront payment. We expect ~EUR 250m to be spread over the next five years, but to a smaller extent in 2015E.
- **Pulling it all together:** Apparently Sanofi will be the largest partner for Evotec with a lot of points of interaction in both core segments EVT Innovate and EVT Execute. In the short and mid-term, EUR 250m commitment with upfront payment should drive both growth and profitability, pushing Evotec's earnings into a new dimension. Joining capacities and capabilities creates a significant long term upside (alone five precl. candidates provide multiple inflection points in the future). Last but not least, the alliance with Sanofi enables Evotec to boost capacity in both core segments with minimal Capex and without compromising the quality of its services. In our view, this clearly strengthens the competitiveness and the market position of Evotec, which should facilitate the cooperation with other established and prospective partners.
- **PT EUR 4.60; BUY recommendation:** For the time being we leave our estimates unchanged, and will adjust them after the deal has been signed. We included the NPV of the Sanofi alliance in our SOP-valuation, which now increased to EUR 4.64/share (Old: EUR 4.00/share). In a new NPV component we considered only committed payments and assumed upfront, leaving long term potential for further upside. We increase our PT to EUR 4.60 and confirm our BUY recommendation.

Y/E 31.12., EUR m	2010	2011	2012	2013	2014E	2015E	2016E
Revenues	55.3	80.1	87.3	85.9	90.0	101.5	110.6
Gross profit	24.3	35.0	31.0	31.2	33.3	38.8	43.6
EBITDA	6.5	11.4	5.6	-12.2	0.6	11.1	12.9
EBITDA adj.	n.a.	n.a.	9.4	12.9	9.3	11.1	12.9
Operating result	1.7	5.2	-3.2	-21.4	-8.0	2.5	4.5
Operating result adj.	1.7	5.8	1.4	1.2	0.7	2.5	-24.7
Net income/loss	3.0	6.7	2.5	-25.4	-8.4	1.1	2.9
EPS	0.03	0.06	0.02	-0.21	-0.06	0.01	0.02
Gross margin	44.1%	43.7%	35.6%	36.3%	37.0%	38.2%	39.5%
EBITDA margin	11.7%	14.2%	6.4%	-14.2%	0.7%	10.9%	11.7%
EBITDA margin (adj.)	n.a.	n.a.	10.8%	15.0%	10.4%	10.9%	11.7%
Operating margin	3.1%	6.5%	-3.7%	-24.8%	-8.9%	2.5%	4.1%
EV/Sales	5.5	3.8	3.5	3.5	3.4	3.0	2.8

Source: Evotec AG; CBS Research AG



Source: CBS Research AG, Bloomberg

Change	2014E		2015E		2016E	
	new	old	new	old	new	old
Revenue	-	90.0	-	101.5	-	110.6
adj. EBITDA	-	9.3	-	11.1	-	12.9
EPS	-	-0.06	-	0.01	-	0.02

www.evotec.com
WKN: 566480
Reuters: EVTG.DE

Sector: Biotechnology
DE0005664809
Bloomberg: EVT GY

Short company profile

Evotec is a drug discovery alliance and development partnership company focused on rapidly progressing innovative product approaches with leading pharmaceutical and biotechnology companies.

Share data:

Share price (last closing price, EUR):	3.25
Shares outstanding (m):	130.13
Market capitalisation (EURm):	422.94
Enterprise value (EURm):	304.28
Ø daily trading volume (3 m., no. of shares):	394,321

Performance data:

High 52 weeks (EUR):	4.57
Low 52 weeks (EUR):	2.42
Absolute performance (12 months):	-0.01
Relative performance: (vs. TecDAX)	
1 month	13.9%
3 months	-7.7%
6 months	-2.5%
12 months	-17.8%

Shareholders:

Roland Oetker/ROI	<15%
TVM V Life Science Ventures	<10%
BVF	<10%
Free float	>68%

Author **Igor Kim, CFA** (Analyst)

Close Brothers Seydler Research AG

Phone: +49 (0) 69-977 84 56 0

Email: research@cbseydlerresearch.ag

www.cbseydlerresearch.ag

Highlights of EVT Innovate alliance: Five projects with multiple indications will enter clinical studies within 24 months

Primary indication(s)	Pre-clinical validation	First-/Best-in-class	Format	Potential IND
Lung cancer, glioblastoma	✓	✓	SM	2016/17
Lung cancer	✓	✓	SM	2016/17
HCC/HNSCC	✓	✓	SM	2016/17
HC	✓	✓	mAb	2016/17
Pancreatic cancer	✓	✓	SM	2016/17

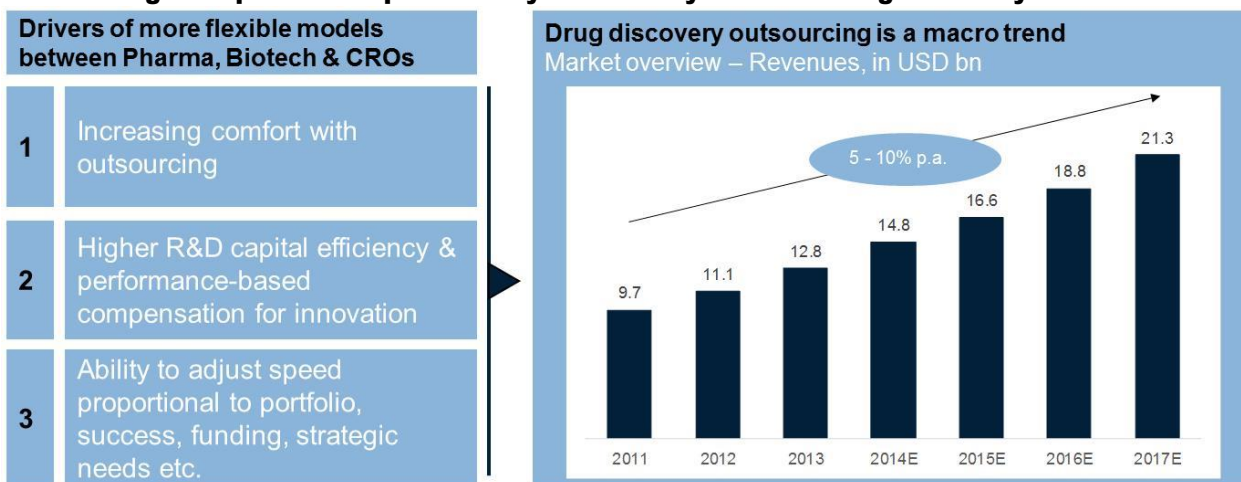
Co-development agreement with Sanofi up to IND – Pre-clinical development plans are geared towards generating clinical ‘proof of mechanism’

Source: Evotec AG; CBS Research AG

Improved stance to ride the industry trends

In our view, the booming biotech industry, coupled with the growing need for cost optimization and enhancing R&D productivity will prompt pharma and biotech companies to increasingly outsource drug discovery process. Considering Evotec’s standing as high-quality provider within the drug discovery domain will improve with Sanofi alliance, we believe that the company has better chances to benefit from these trends, compared to most drug discovery CRO providers.

Outsourcing to improve R&D productivity – Market dynamics in drug discovery



Source: Visiongain; Drug Discovery Outsourcing: World Market 2012; Evotec AG; CBS Research AG

Sum-of-the-parts valuation

	Status	Indication	Valuation approach	NPV in EUR m	NPV in EUR/share	NPV contribution
Alliance with Sanofi	to be signed in 1H15	-	DCF	83.4	0.64	14%
Discovery alliance business (excl. Alliance with Sanofi)	-	-	DCF	239.0	1.84	40%
EVT 302 (Roche)	Phase IIb	Alzheimer Disease	rNPV	160.0	1.23	26%
EVT 201 (Jingxin)	Phase IIb planned to start in 2H/14	Insomnia	rNPV	31.7	0.24	5%
Net cash	-	-		90.3	0.69	15%
Total value				520.99	4.64	100%

Source: CBS Research AG

Research



Schillerstrasse 27 - 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 977 8456-0

Roger Peeters Member of the Board	+49 (0)69 - 977 8456- 12 Roger.Peeters@cbseydlerresearch.ag		
Martin Decot (Equities)	+49 (0)69 - 977 8456- 13 Martin.Decot@cbseydlerresearch.ag	Igor Kim (Equities)	+49 (0)69 - 977 8456- 15 Igor.Kim@cbseydlerresearch.ag
Gennadij Kremer (Corporate Credit)	+49 (0)69 - 977 8456- 23 Gennadij.Kremer@cbseydlerresearch.ag	Daniel Kukalj (Equities)	+49 (0)69 - 977 8456- 21 Daniel.Kukalj@cbseydlerresearch.ag
Carsten Kunold (Equities)	+49 (0)69 - 977 8456- 28 Carsten.Kunold@cbseydlerresearch.ag	Manuel Martin (Equities)	+49 (0)69 - 977 8456- 16 Manuel.Martin@cbseydlerresearch.ag
Felix Parmantier (Equities)	+49 (0)69 - 977 8456- 22 Felix.Parmantier@cbseydlerresearch.ag	Roland Pfänder (Equities)	+49 (0)69 - 977 8456- 26 Roland.Pfaender@cbseydlerresearch.ag
Dr. Oliver Pucker (Equities)	+49 (0)69 - 977 8456- 27 Oliver.Pucker@cbseydlerresearch.ag	Michele Sassano (Support)	+49 (0)69 - 977 8456- 17 Michele.Sassano@cbseydlerresearch.ag
Marcus Silbe (Equities)	+49 (0)69 - 977 8456- 14 Marcus.Silbe@cbseydlerresearch.ag	Simone Steymann (Support)	+49 (0)69 - 977 8456- 25 Simone.Steymann@cbseydlerresearch.ag
Veysel Taze (Equities)	+49 (0)69 - 977 8456- 18 Veysel.Taze@cbseydlerresearch.ag	Ivo Višić (Equities)	+49 (0)69 - 977 8456- 19 Ivo.Visic@cbseydlerresearch.ag
Sergey Weinberg (Corporate Credit)	+49 (0)69 - 977 8456- 20 Sergey.Weinberg@cbseydlerresearch.ag		

Institutional Sales



Schillerstrasse 27 – 29
60313 Frankfurt am Main

Phone: +49 (0)69 – 9 20 54-400

Karl Filbert (Head of Sales)	+49 (0)69 -9 20 54-104 Karl.Filbert@cbseydler.com	Klaus Korzilius (Benelux, Scandinavia)	+49 (0)69 -9 20 54-114 Klaus.Korzilius@cbseydler.com
Sebastian Holl (Head of Sales Trading)	+49 (0)69 -9 20 54-119 Sebastian.Holl@cbseydler.com	Carsten Pfersdorf (Head of Sales Execution)	+49 (0)69 -9 20 54-168 Carsten.Pfersdorf@cbseydler.com
Bruno de Lencquesaing (Benelux, France)	+49 (0)69 -9 20 54-116 Bruno.deLencquesaing@cbseydler.com	Dr. James Jackson (UK, Ireland)	+49 (0)69 -9 20 54-113 James.Jackson@cbseydler.com
Claudia Jurewecz (Germany, Austria, Switzerland)	+49 (0)69 -9 20 54-106 Claudia.Jurewecz@cbseydler.com	Markus Laifle (Sales Execution)	+49 (0)69 -9 20 54-120 Markus.Laifle@cbseydler.com
Angela Leser (Germany, Austria, Switzerland)	+49 (0)69 -9 20 54-111 Angela.Leser@cbseydler.com	Enikö-Sofia Matyas (Germany, France)	+49 (0)69 -9 20 54-115 Enikoe-Sofia.Matyas@cbseydler.com
Carsten Schlegel (Sales Trading)	+49 (0)69 -9 20 54-137 Carsten.Schlegel@cbseydler.com	Christopher Seedorf (Switzerland)	+49 (0)69 -9 20 54-110 Christopher.Seedorf@cbseydler.com
Bas-Jan Walhof (Benelux, Scandinavia)	+49 (0)69 -9 20 54-105 Bas-Jan.Walhof@cbseydler.com		

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BUY: The expected performance of the share price is above +10%.

HOLD: The expected performance of the share price is between 0% and +10%.

SELL: The expected performance of the share price is below 0%.

This rating system is only a guideline. Therefore, deviations from this system may apply.

Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
03 December 2013	BUY (Company Update)	EUR 3.25	EUR 4.60
12 November 2014	BUY (Company Update)	EUR 3.08	EUR 4.00
22 September 2014	BUY (Company Update)	EUR 3.10	EUR 4.00
09 September 2014	HOLD (Company Update)	EUR 3.69	EUR 4.00

12 August 2014	BUY (Company Update)	EUR 3.58	EUR 4.70
14 May 2014	BUY (Company Update)	EUR 3.64	EUR 4.50
02 April 2014	BUY (Company Update)	EUR 3.88	EUR 4.50
26 March 2014	BUY (Company Update)	EUR 3.83	EUR 4.30
13 December 2013	BUY (Company Update)	EUR 3.94	EUR 4.30
13 November 2013	BUY (Company Update)	EUR 4.06	EUR 4.50

Risk-scaling System:

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LOW: The volatility is expected to be lower than the volatility of the benchmark

MEDIUM: The volatility is expected to be equal to the volatility of the benchmark

HIGH: The volatility is expected to be higher than the volatility of the benchmark

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Responsible Supervisory Authority:
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin, Federal Financial Supervisory Authority)
Graurheindorferstraße 108
53117 Bonn

and

Marie-Curie-Str. 24-28
60439 Frankfurt

Close Brothers Seydler
Research AG

Schillerstrasse 27 - 29
60313 Frankfurt am Main
www.cbseydlerresearch.ag
Tel.: 0049 - (0)69 - 97 78 45 60