

Recommendation:

BUY (BUY)

Risk:

HIGH (High)

Price Target:

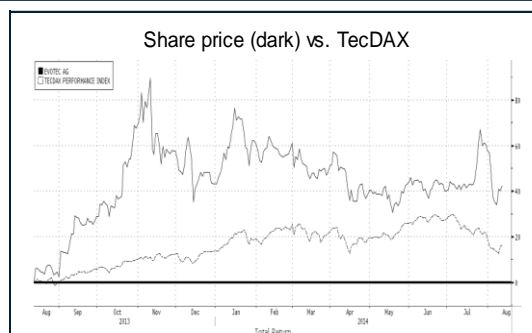
EUR 4.70 (4.50)

12 August 2014

Solid 2Q/14 results

Well on track to achieve 2014 guidance

- Strong 1H/14 results, despite adverse FX-effects:** Revenues in 1H/14 increased to EUR 40.1m (YoY +9%; FX-adj. +12%), of which EUR 5.6m were attributable to milestones/ upfront/ licenses (PY: EUR 3.4m). Adj. EBITDA slightly improved to EUR 0.6m (PY: EUR 0.5m). 1H/14 was also notable in terms of acquisitions (Bionamics and Euprotec), collaboration activity (one new addition and three extensions) as well as achieved milestones.
- Confirmed 2014 outlook:** The management further expects high single-digit percentage growth in the top line and positive EBITDA before changes in contingent considerations at a similar level to 2013. Given the strong 1H/14 results, the company is well on track to reach FY 2014 guidance.
- Newsflow in the short term:** Regarding product pipeline, we anticipate the following triggers in the short term: 1) The read out of the second pivotal phase III trial with DiaPep277 in 1Q/15. The first Phase III trial data with DiaPep277 was encouraging both in terms of efficacy and safety. Therefore, given the orphan status of DiaPep277, the probability of success is high, in our view; 2) Results from Phase IIb trial with EVT302 (Roche) in Alzheimer's disease in 2015; 3) Start of Phase IIb trial (Jingxin) with EVT 201 in Insomnia; 4) At least two clinical starts within partnership pipeline.
- Acquisition of Euprotec:** The recently acquired Euprotec provides numerous synergies and an access to the area of anti-infective drugs with a large market potential (*see next page*). In our view, the total consideration of GBP 3.15m is a reasonable price for Euprotec, considering that the company is a great fit to Evotec in many aspects (business model, know-how and market potential).
- Recommendation and PT:** Our SOP-valuation derives EUR 5.07/share. We increased our PT to EUR 4.70 and confirm our BUY recommendation. Given the expected newsflow and very likely strong 2H/14 results, we believe that at the current level Evotec presents a good buying opportunity.



Source: CBS Research AG, Bloomberg

Change	2014E		2015E		2016E	
	new	old	new	old	new	old
Revenue	-	93.0	-	101.4	-	110.5
adj. EBITDA	-	12.5	-	14.4	-	16.6
EPS	-	0.02	-	0.03	-	0.05

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):	3.58
Shares outstanding (m):	130.13
Market capitalisation (EURm):	466.40
Enterprise value (EURm):	344.76
Ø daily trading volume (3 m., no. of shares):	846,076

Performance data:

High 52 weeks (EUR):	5.08
Low 52 weeks (EUR):	2.54
Absolute performance (12 months):	0.42
Relative performance: (vs. TecDAX)	
1 month	6.8%
3 months	5.7%
6 months	-7.9%
12 months	22.5%

Shareholders:

Roland Oetker/ROI	<15%
TVM V Life Science Ventures	<10%
BVF	<10%
DAWN	>3%
Free float	>65%

Financial calendar:

3Q/14 figures 12 November 2014

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Y/E 31.12., EUR m	2010	2011	2012	2013	2014E	2015E	2016E
Revenues	55.3	80.1	87.3	85.9	93.0	101.4	110.5
Gross profit	24.3	35.0	31.0	31.2	35.6	40.0	45.0
EBITDA	6.5	11.4	5.6	-12.2	12.5	14.4	16.6
EBITDA adj.	n.a.	n.a.	9.4	12.9	12.5	14.4	16.6
Operating result	1.7	5.2	-3.2	-21.4	4.1	5.9	8.1
Operating result adj.	1.7	5.8	1.4	1.2	4.1	5.9	-23.9
Net income/loss	3.0	6.7	2.5	-25.4	2.5	4.2	6.2
EPS	0.03	0.06	0.02	-0.21	0.02	0.03	0.05
Gross margin	44.1%	43.7%	35.6%	36.3%	38.2%	39.5%	40.7%
EBITDA margin	11.7%	14.2%	6.4%	-14.2%	13.5%	14.2%	15.0%
EBITDA margin (adj.)	n.a.	n.a.	10.8%	15.0%	13.5%	14.2%	15.0%
Operating margin	3.1%	6.5%	-3.7%	-24.8%	4.4%	5.8%	7.3%
EV/Sales	6.2	4.3	4.0	4.0	3.7	3.4	3.1

Source: Evotec AG; CBS Research AG

Acquisition of Euprotec

Evotec acquired Euprotec Ltd, a UK-based CRO, focused on anti-infective drug discovery services. The purchase price is GBP 3.15m (of which GBP 1.25m is deferred component). While in terms of financial the short term contribution from Euprotec is likely to be insignificant, we think that this acquisition offers a considerable synergy with future potential:

- 1. New disease franchise anti-infectives:** Currently, Evotec has two programmes in the area of anti-infective, TargetPicV (haplogen) and TargetPGB (Harvard), to develop drugs to treat infectious diseases. The acquisition of Euprotec should expand this portfolio and accelerate EVT Innovate business. A newly established franchise should also strengthen EVT Execute segment.
- 2. Access to a market with huge potential:** The worldwide estimated worth of anti-infectives is >USD 53bn (Source: Kalorama information; World Market for Anti-infectives: Antifungals, Antibacterials and Antivirals; 2012). Worth mentioning that, this figure was estimated, before the recent introduction of drug Sovaldi for the treatment of Hepatitis C (developed by Gilead Science). Sovaldi alone is forecasted to exceed sales of USD 10bn in the ongoing year. The case with Sovaldi, which caused numerous public discussions is unprecedented in terms of price (USD 1000 per pill), market penetration (USD 5.5bn in the first six months) and the efficacy.

Also an increasing resistance to antibiotic/antimicrobial demonstrates a significant medical need.

- 3. Key know-how and infectious disease therapeutic area capabilities:** With a comprehensive portfolio of assays and disease models, Euprotec supports each stage of anti-infective drug discovery and development programmes from discovery through to late stage pre-clinical investigation and clinical proof-of-concept studies.

Despite cash requirements for the transaction in 2014, Evotec confirmed all prior financial objectives and a liquidity guidance (>EUR 90m) remains unchanged.

Acquisition of Euprotec: Large future potential

Milestones: Boehringer Ingelheim (Respiratory programme); Janssen (TargetAD)

In June, Evotec announced that its research alliance with Boehringer Ingelheim has reached a milestone triggering a payment of EUR 1.0m to Evotec. The milestone was for the transition of a back-up compound from a respiratory programme into pre-clinical development.

23rd milestone with Boehringer Ingelheim

Milestones with Boehringer Ingelheim

	Year	Number of milestone payments from Boehringer Ingelheim
Start of collaboration	2004	0
	2005	1
	2006	1
	2007	0
	2008	3
Extension of the collaboration	2009	2
	2010	4
	2011	4
	2012	3
	2013	4
	2014	1
	Total	23

Source: Evotec AG; CBS Research AG

The alliance with BI, which remains Evotec's top 1 customer, continues to be very productive in terms of milestone payments, which underlines the validity of this partnership. Overall, it is the 23rd milestone payment achieved within the alliance with Boehringer Ingelheim since inception of this collaboration.

In addition Evotec achieved first small milestones in its TargetAD collaboration with Janssen for the identification and selection of three selected targets from the TargetAD database. Under the terms of the agreement, Janssen and Evotec are collaborating to identify new drug targets for discovery of novel treatment approaches to Alzheimer's disease. For the time being the targets are not disclosed.

First milestones achieved in TargetAD collaboration

Collaborations: New additions and extension of existing alliances

In May 2014, Evotec entered into a new collaboration with Shire to develop novel small molecule inhibitors against a target to treat Fabry's disease, an inherited lysosomal storage disease. The term of the collaboration will be three years. Financial details are not being disclosed.

New drug discovery collaboration with Shire

In June 2014, the agreement with Vifor, initially signed in February 2010, was extended and expanded to drive a second programme in another mineral deficiency/sufficiency-related therapeutic area. No further details about the research projects are being disclosed.

Collaboration with Vifor extended and expanded

In July 2014, Evotec announced an exclusive strategic collaboration with the Fraunhofer Institute for Molecular Biology and Applied Ecology IME in several disease areas through the combination of the relevant platforms of both organisations for internal and external drug discovery projects.

New collaboration with Fraunhofer IME in joint drug discovery programmes

Pipeline overview

Diabetes

Molecules	Indication (mechanism)	Partner	Status	Next milestone	Commercials
DiaPep277	Type 1 diabetes (immunomodulation)	TEVA/ Andromeda	2nd Phase III	Final Phase III data	~EUR 40m milestones, royalties; potential market ~EUR 500m
EVT770	Type 1 and 2 diabetes (beta cell regeneration)	MedImmune/ AstraZeneca	Lead	Phase I	EUR 5m upfront, high margin research payments EUR 254m milestones/ EUR 2m upfront; High margin research payments EUR 183m milestones/ EUR 7m upfront; High margin research payments EUR 237m milestones, TBD
ALM	Type 1 and 2 diabetes (beta cell regeneration)	MedImmune/ AstraZeneca	Discovery	Phase I	
EVT070	Type 1 and 2 diabetes (beta cell regeneration)	Boehringer Ingelheim	Lead	PDC	
CureBeta	Type 1 and 2 diabetes (beta cell regeneration)	Harvard	Target ID/ validation	Validated Target	TBD
CureNephron	Chronic Kidney Disease	Harvard/ B&W Hospital	Discovery	Pharma partnership	TBD
TargetEEM	Type 1 and 2 diabetes (enteroendocrine)	Harvard	Discovery	Pharma partnership	TBD
Various	Kidney Diseases	AstraZeneca	Discovery	ND	Undisclosed upfront, high margin research payments

Neurology

Molecules	Indication (mechanism)	Partner	Status	Next milestone	Commercials
EVT302 (MAO-B)	Alzheimer's Disease (MAO-B)	Roche	Phase IIb	Phase II completion, Phase III start	EUR 10m upfront; USD 820m milestones, significant royalties
EVT100 series	Depression (NR2B)	Janssen	Pre-clinical	Confirmation of pre-clinical study; Phase III	EUR 2m upfront; USD 173m milestones, significant royalties
EVT201	Insomnia	Jingxin	Phase II	Start clinical trials	Milestones, royalties
Various	Huntington Disease	CHDI	Target validation	ND	Research payments
Not disclosed	Neurodegeneration	Genentech	Pre-clinical	ND	Research payments
TargetAD	Alzheimer's Disease (Novel MoA)	J&J Innovation	Discovery	ND	Up to USD 10m research payments, ~USD 125-145m milestones, royalties
TargetASIC	Multiple sclerosis	BMBF/ undisclosed	Lead generation	Lead status	Co-funded
CureMN	Amyotrophic Lateral Sclerosis (ALS)	Harvard	ND	Pharma Partnership	TBD
Various	CNS/ Multiple Sclerosis	NEU2/ Bionamics	Pre-clinical/ Various	ND	ND

Pain and inflammation

Molecules	Indication (mechanism)	Partner	Status	Next milestone	Commercials
EVT401	Inflammation (P2X7 inhibitor)	Conba Group	Phase III	Phase II start	~EUR 60m milestones; Royalties
Various	Endometriosis	Bayer	Pre-clinical	Pre-clinical candidate	Upfront EUR 12m; total value up to ~EUR 580m; Royalties
Various	Various / Pain	Boehringer Ingelheim	Pre-clinical	Phase I start	Undisclosed upfront; Research payments; Milestones; Royalties
Various	Inflammation	UCB	Pre-clinical	Preclinical	Milestones and royalties
Undisclosed	Various/Pain	Novartis	Pre-clinical	Successful PoC	Research payments; Milestones; Royalties
Undisclosed	Pain	Convergnece	Lead generation	Pre-clinical candidate	Integrated pain alliance, milestones and significant royalty ownership

Oncology

Molecules	Indication (mechanism)	Partner	Status	Next milestone	Commercials
Somatropim (DG3173)	Acromegaly / NET	Aspireo	Phase IIa	Pharma partnership	Consulting fees; Royalties
ND	Oncology	Boehringer Ingelheim	Phase I	ND	Research payments; Milestones; Royalties
ND/Biomarker platform	Oncology	Roche	Phase I	ND	Milestones
ND	Oncology	Boehringer Ingelheim	Preclinical	ND	Research payments; Milestones; Royalties
Target-ImmuniT	Various (immunotherapy)	Apeiron	Pre-clinical	Pharma partnership	ND
TargetKDM	Various (Epigenetic targets)	Belfer Institute	Pre-clinical	Pharma partnership	ND
TargetDBR	Glioblastoma (brain tumour)	Yale University	Hit to lead	Pharma partnership	ND
TargetCanMet	Various (Epigenetic targets)	Debiopharm Group	Hit to lead	ND	Research payments; Milestones; Royalties

Anti-infective platform

Molecules	Indication (mechanism)	Partner	Status	Next milestone	Commercials
TargetPcV	Viral Indications	Haplogen	Research	Pre-clinical candidate	
Target PGB	Novel Antibiotics	Harvard	Research	Pre-clinical candidate	

Source: Evotec AG; CBS Research AG

Sum-of-the-parts valuation

	Status	Indication	Val.	PV in EUR m	PV in EUR/share	PV contribution
Discovery alliance business	-	-	DCF	279.9	2.15	42%
EVT 302 (Roche)	Phase IIb	Alzheimer Disease	rNPV	153.3	1.18	23%
DiaPep277 (Teva/Andromeda)	2nd Phase III recruitment closed	Type 1 diabetes	rNPV	107.1	0.82	16%
EVT 201 (Jingxin)	Phase IIb planned to start in 2H/14	Insomnia	rNPV	15.3	0.12	2%
Net cash	-	-		104.8	0.81	16%
Total value				660.36	5.07	100%

Source: CBS Research AG

Income statement

IFRS EUR 1,000	2009	2010	2011	2012	2013	2014E	2015E	2016E
Total revenues	42,683	55,262	80,128	87,265	85,938	93,031	101,404	110,530
YoY growth	7.8%	29.5%	45.0%	8.9%	-1.5%	8.3%	9.0%	9.0%
Cost of revenue	-24,262	-30,916	-45,143	-56,242	-54,715	-57,454	-61,372	-65,558
as % of sales	-56.8%	-55.9%	-56.3%	-64.4%	-63.7%	-61.8%	-60.5%	-59.3%
Gross profit	18,421	24,346	34,985	31,023	31,223	35,577	40,031	44,972
as % of sales	43.2%	44.1%	43.7%	35.6%	36.3%	38.2%	39.5%	40.7%
R&D expenses	-20,947	-6,116	-8,437	-8,340	-9,664	-11,000	-11,990	-13,069
as % of sales	-49.1%	-11.1%	-10.5%	-9.6%	-11.2%	-11.8%	-11.8%	-11.8%
SG&A expenses	-16,695	-15,956	-15,760	-16,301	-16,597	-17,967	-19,584	-21,346
as % of sales	-39.1%	-28.9%	-19.7%	-18.7%	-19.3%	-19.3%	-19.3%	-19.3%
Non-operating expenses	-23,078	-559	-5,581	-9,584	-26,313	-2,519	-2,584	-2,461
as % of sales	-54.1%	-1.0%	-7.0%	-11.0%	-30.6%	-2.7%	-2.5%	-2.2%
EBITDA	-38,234	6,480	11,414	5,614	-12,186	12,544	14,406	16,570
as % of sales	-89.6%	11.7%	14.2%	6.4%	-14.2%	13.5%	14.2%	15.0%
EBITDA adj.	n.a.	n.a.	n.a.	9,400	12,861	12,544	14,406	16,570
as % of sales	n.a.	n.a.	n.a.	10.8%	15.0%	13.5%	14.2%	15.0%
Operating result	-42,299	1,715	5,207	-3,202	-21,351	4,091	5,874	8,096
as % of sales	-99.1%	3.1%	6.5%	-3.7%	-24.8%	4.4%	5.8%	7.3%
Operating result adj.	-24,461	1,715	5,764	1,401	1,229	4,091	5,874	-23,883
as % of sales	-57.3%	3.1%	7.2%	1.6%	1.4%	4.4%	5.8%	-21.6%
Net financial results	-2,520	2,152	49	-1,812	-2,297	-1,258	-1,258	-1,258
EBT	-44,819	3,867	5,256	-5,014	-23,648	2,833	4,615	6,837
as % of sales	-105.0%	7.0%	6.6%	-5.7%	-27.5%	3.0%	4.6%	6.2%
Income taxes	-678	-882	1,395	7,492	-1,785	-283	-462	-684
as % of EBT	1.5%	-22.8%	26.5%	-149.4%	7.5%	-10.0%	-10.0%	-10.0%
Net income/loss	-45,497	2,985	6,651	2,478	-25,433	2,550	4,154	6,154
as % of sales	-106.6%	5.4%	8.3%	2.8%	-29.6%	2.7%	4.1%	5.6%
Basic EPS (EUR)	-0.43	0.03	0.06	0.02	-0.21	0.02	0.03	0.05

Source: Evotec AG; CBS Research AG

Research



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- c. CBS has provided investment banking and/or consulting services during the last 12 months for the company analysed for which compensation has been or will be paid for.
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Recommendation System:

CBSR uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 12 months:

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
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
28 October 2013	BUY (Company Update)	EUR 3.95	EUR 4.50
15 October 2013	BUY (Company Update)	EUR 3.40	EUR 4.00
02 September 2013	BUY (Company Update)	EUR 2.62	EUR 4.00
08 August 2013	BUY (Company Update)	EUR 2.59	EUR 3.90

Risk-scaling System:

CBSR uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 12 months:

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

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer group comparisons, historical valuation approaches, discounting models (DCF, DDM), break-up value approaches or asset valuation approaches. The valuation models are dependent upon macroeconomic measures such as interest, currencies, raw materials and assumptions concerning the economy. In addition, market moods influence the valuation of companies.

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