

BIOTECHNOLOGY

A Research Publication by DZ BANK AG

Evotec⁵⁾⁶⁾

Reuters: EVTG.DE

Bloomberg: EVT GY

Year *	Sales		Adj. IFRS- Earnings per sh.		PER	Free cash flow per share		Free cash flow yield per share	Dividend yield per share
	EUR m		EUR			EUR			
2014	89.5	(89.5)	0.04	(0.04)	92.0	-0.01	(-0.01)	-0.2	0.00
2015e	116.1	(116.1)	0.04	(0.04)	88.3	0.00	(0.00)	0.0	0.00
2016e	134.5	(134.5)	0.06	(0.06)	57.5	0.05	(0.05)	1.4	0.00
2017e	146.9	(146.9)	0.08	(0.08)	44.0	0.09	(0.09)	2.4	0.00

* Fiscal year end December – In brackets: Figures from the last publication

Disappointing study results with Alzheimer's substance

- » Evotec was informed by its partner Roche about the results of the Phase IIb trial with the substance „Sembragiline“, which was developed for the treatment of Alzheimer's disease.
- » After a Phase IIb trial, which was carried out over a time period of 52 weeks, there was no evidence of an improvement on the primary endpoint with this trial. The Phase IIb study was undertaken to evaluate the efficacy and safety of Sembragiline (Evotec internal code: EVT 302).
- » The substance Sembragiline was originally licensed from Roche to Evotec in 2006. In 2011, Evotec and Roche entered into an exclusive worldwide license agreement to treat Alzheimer's, whereby Roche is responsible for the clinical development, manufacturing and commercialisation activities.
- » The study results are a clear disappointment for Evotec, because this substance was the most advanced in the entire portfolio of Evotec's partnerships and the next two development candidates are only in Phase IIa.
- » Despite the disappointing results Evotec confirmed the full-year forecast for fiscal year 2015e and is still expecting an increase of over 35% in the group sales (DZe: EUR 116m or +30%) mainly due to the alliance with Sanofi. The R&D costs are likely to amount to EUR 15 – 20m.

Evotec suffered a setback in the development of a substance against Alzheimer's. Due to the alliance with Sanofi and the chance of pipeline expansion connected with this we confirm our recommendation and derive a new fair value of € 3,8.

Selected Companies	Price on 30 Jun 2015	PER		EV / EBITDA		EV / Sales 15e	Re- com.
		15e	16e	15e	16e		
Evotec	3.55 EUR	88.3	57.5	20.7	16.2	3.22	↑
Galapagos Genomics	45.80 EUR	19.0	–	19.7	–	6.34	–
WuXi Pharmatech	42.26 USD	24.0	20.7	15.0	12.7	3.60	–
Abcam	5.18 GBP	27.1	25.1	18.4	16.5	6.96	–
MorphoSys	64.38 EUR	195.1	n/a	91.4	–	13.55	–
Median for all peer group companies		25.6	25.1	18.4	12.9	8.98	–

↑ = Buy, → = Hold, ↓ = Sell, ● = not rated, n/a = not appropriate
Source: DZ BANK, I/B/E/S, FactSet

EQUITIES

Flash
1 Jul 2015

Buy (prev. Buy)

Closing price 30 Jun 2015

(in EUR): 3.55
Fair value: 3.80 (prev. 4.30)

Financial ratios 2015e:

Book value per share (in EUR):	1.47
Equity ratio (in %):	68.1
Net margin (in %):	4.5
ROE (in %):	2.7
Dividend yield (in %):	0.0
Free cash flow (EUR m):	-0.1
Net debt (EUR m):	-94.0

Number of shares

(million units): 131.7

Market cap

(in EUR m): 467.57

Free float (in %):

69.2

SIN: 566480

ISIN: DE0005664809

Datastream: D:EVTX

Next Newsflow:

Bericht Q2/H1 2015: 12.08.2015

Bericht Q3 2015: 10.11.2015



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DZ BANK
Bank on Germany

AT A GLANCE

Company profile

Evotec operates as a service provider and drug developer for the biopharmaceutical industry. In addition to fees for contract work, Evotec receives payments on reaching specific development milestones and a share of sales once a drug has reached the market. In the case of proprietary developments, the company minimises costs and risks by focusing on early-stage development.

Basis for investment recommendation

Evotec has posted results for Q1 2015 which came in line with expectations. Sales were reported at EUR 21.5m (+22% vs. PY, Bloomberg consensus: EUR 22.6m), the operating loss at EUR -3.3m (-3.5m in PY) and the EPS at Euro -0.01 (-0.03 in PY, consensus: Euro 0.01). Evotec suffered a setback with regard to the development of a new compound against Alzheimer's disease. Evotec still expects a sales rise of over 35% for 2015e as well as R&D expenditure of EUR 15m-20m.

Price sensitive current issues

- » Further expansion of customer base at all business levels (EVT Execute, EVT Integrate, EVT Innovate)
- » Growing clinical visibility of customer projects
- » Expansion of business model towards biological substances

Opportunities and risks

Opportunities	Risks
Ongoing trend towards outsourcing of R&D activities	Growth restrictions through shortage of personnel
New customer contracts and milestone payments via recently acquired companies	Let-up in outsourcing trend
Cross-selling via newly acquired Compound Focus	Development risks
Data from clinical development of further drugs	

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PROFIT AND LOSS ACCOUNT

Euro m	2014	2015e	2016e	2017e	2018e	2019e
Sales	89.5	116.1	134.5	146.9	160.5	175.4
% against prev. year	4%	30%	16%	9%	9%	9%
Cost of goods sold	-60.1	-75.4	-86.1	-92.6	-99.5	-107.0
Gross profit	29.4	40.6	48.4	54.4	61.0	68.4
% against prev. year	-6%	38%	19%	12%	12%	12%
Sales costs	-3.1	-4.1	-4.2	-4.4	-4.8	-5.3
Administration costs	-14.9	-17.4	-20.2	-22.0	-24.1	-26.3
R&D expenditure	-12.4	-19.7	-21.5	-23.5	-25.7	-28.1
Other operating income	15.4	11.6	13.4	14.7	16.1	18.4
Other operating expenses	-9.7	-2.3	-3.4	-2.9	-3.2	-5.3
Extraordinary income/expenses	-11.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	-6.4	8.7	12.6	16.2	19.3	21.9
For information: EBIT adjusted	4.6	8.7	12.6	16.2	19.3	21.9
% against prev. year	284%	89%	45%	28%	19%	14%
Interest paid / received	1.2	-1.2	-1.1	-1.0	-1.0	-1.0
Profit before tax	-5.2	7.5	11.6	15.1	18.3	21.0
For information: EBT adjusted	5.8	7.5	11.6	15.1	18.3	21.0
% against prev. year		29%	54%	30%	21%	15%
Income taxes from continuing operations	-1.8	-2.3	-3.5	-4.5	-5.5	-6.3
Tax rate	-35%	30%	30%	30%	30%	30%
Net profit from continuing operations	-7.0	5.3	8.1	10.6	12.8	14.7
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	-7.0	5.3	8.1	10.6	12.8	14.7
Profit or loss attributable to minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Profit or loss attributable to shareholders	-7.0	5.3	8.1	10.6	12.8	14.7
thereof from continuing operations	-7.0	5.3	8.1	10.6	12.8	14.7
thereof from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	131.291	131.291	131.291	131.291	131.291	131.291
IFRS earnings per share, diluted	-0.05	0.04	0.06	0.08	0.10	0.11
Adjusted earnings per share, diluted (contin.)	0.04	0.04	0.06	0.08	0.10	0.11
For information						
Depreciation	23.5	9.3	10.1	10.9	11.7	12.5
EBITDA	17.1	18.0	22.8	27.1	31.0	34.4
EBITDA adjusted	13.1	18.0	22.8	27.1	31.0	34.4

Fiscal year end December

Source: Evotec and DZ BANK estimates

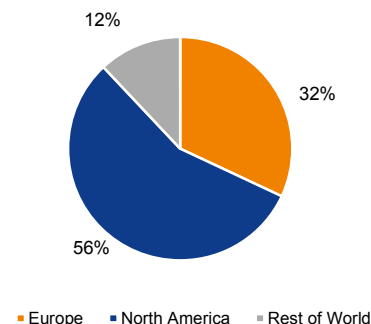
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RATIOS

Euro	2014	2015e	2016e	2017e	2018e
Profit and loss ratios					
Sales (m)	89.5	116.1	134.5	146.9	160.5
EBITDA margin	14.7%	15.5%	16.9%	18.4%	19.3%
EBIT margin	5.1%	7.5%	9.4%	11.0%	12.0%
Net margin	5.9%	4.5%	6.0%	7.2%	8.0%
Investment ratio	9.8%	8.6%	6.7%	6.1%	5.6%
R&D as % of sales	13.9%	17.0%	16.0%	16.0%	16.0%
Admin and sales costs as % of sales	20.1%	18.5%	18.1%	18.0%	18.0%
Net other operating costs as % of sales	-6.3%	-8.0%	-7.5%	-8.0%	-8.0%
Net financial income as % of sales	1.4%	-1.0%	-0.8%	-0.7%	-0.6%
Interest cover		7.5	12.0	15.5	19.0
Average sales growth next five years	14.4%	10.6%			
Average earnings growth next five years	22.8%	26.1%			
Profitability ratios					
ROE	3.3%	2.7%	4.0%	5.0%	5.7%
ROCE	3.9%	7.0%	9.9%	12.6%	15.0%
Productivity ratios					
Sales per employee ('000)	134.88	143.57	147.96	158.49	169.76
EBIT per employee ('000)	6.94	10.77	13.91	17.43	20.37
Balance sheet ratios					
Equity ratio	70.5%	68.1%	68.2%	68.7%	69.3%
Long term debt and equity / Fixed assets	192.9%	247.4%	259.1%	275.9%	298.1%
Liquidity (quick ratio)	366.8%	485.2%	481.7%	494.7%	511.7%
Receivables as % of sales	28.2%	28.2%	28.2%	28.2%	28.2%
Investment (net of GW) / Depreciation		107.5%	88.8%	82.4%	76.9%
Working capital as % of sales	20.1%	21.0%	21.3%	21.5%	21.6%
Net debt (m)	-65.1	-94.0	-99.6	-109.9	-122.9
Net debt complete (m)	-42.9	-71.2	-76.1	-85.7	-98.0
Figures per share					
Earnings per share, diluted	0.04	0.04	0.06	0.08	0.10
Free cash flow per share, diluted	-0.01	0.00	0.05	0.09	0.11
Dividend per common share	0.00	0.00	0.00	0.00	0.00
Cash per share, diluted	0.37	0.74	0.78	0.86	0.96
Net debt per share, diluted	-0.49	-0.71	-0.76	-0.83	-0.93
Valuation ratios					
Enterprise value / Sales	4.7	3.2	2.7	2.4	2.1
Enterprise value / EBITDA	31.9	20.7	16.2	13.2	11.1
Enterprise value / EBIT	91.0	42.9	29.1	22.1	17.9
EV/Sales to sales growth	0.35	0.22	0.26	0.23	0.20
PEG ratio - common shares		3.87	2.21		
Fiscal year end December					

Source: Evotec, DZ BANK estimates

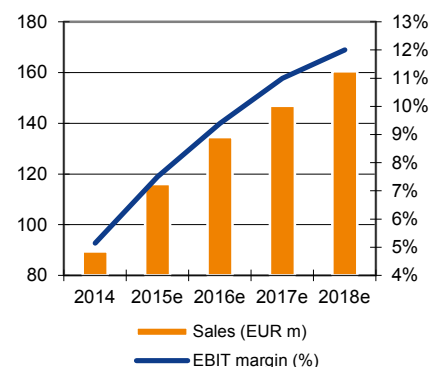
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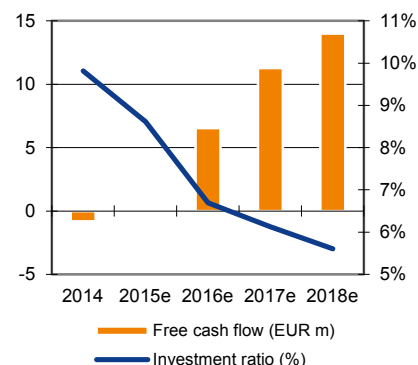
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SALES AND MARGIN DEVELOPMENT



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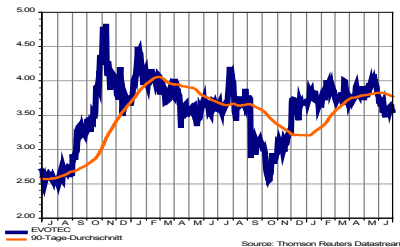
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RATING HISTORY

Recommendation	Date	Price
Buy	13 Apr 2015	3.75 EUR
Hold	9 Sep 2014	3.69 EUR

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