

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			
2015	127.7	(116.1)	0.01	(0.04)	n.a.	0.05	(0.00)	1.1	0.00
2016e	134.5	(134.5)	0.06	(0.06)	54.0	0.07	(0.05)	2.1	0.00
2017e	146.9	(146.9)	0.08	(0.08)	41.4	0.09	(0.09)	2.6	0.00
2018e	160.5	(-)	0.10	(-)	34.3	0.11	(-)	3.2	0.00

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

Accelerated drug research thanks to spin-off - Postive outlook 2016e

- » Evotec announced the formation of a spin-off company Topas Therapeutics GmbH (Topas). With this company, Evotec aims to build a project pipeline to treat patients suffering from auto-immune diseases. Proceeds from the first financing round (EUR 14m) put Topas in a position to expand its technology platform and to push forward with the development of its own products. Evotec will remain the majority stakeholder. The advantage of the formation of a spin-off company is that promising programmes can be pushed forward more quickly with the participation of partners with shared risk and earnings. The first trials are to begin in 2017.
- » The annual results for 2015 were strongly impacted by the alliance with Sanofi. This alliance (begin: 1.4.2015) is expect to lead to guaranteed payments from Sanofi to Evotec in the amount of approx. EUR 250m paid smoothly over the next five years and is a crucial factor in the considerable sales rise of +43% to EUR 128m. The operating result could be improved to EUR 11.6m (PY: EUR -6.4m).
- » Evotec issued positive guidance for 2016e and expects basic sales to rise to over 15% (PY: EUR 115.4m). R&D costs are expected to be in the order of approx. EUR 20 mn (DZe: EUR 21.5m). Further, liquidity 2016e is expected to be at a similar level to in 2015 (EUR 134.5m).

By founding Topas, Evotec has provided an initial example of how to push development programmes forward faster with shared risk and earnings. The annual results for 2015 were strongly impacted by the alliance with Sanofi. Outlook 2016e is in line with our expectations. We therefore confirm our recommendation

Selected Companies	Price on 7 Apr 2016	PER		EV / EBITDA		EV / Sales 16e	Re- com.
		16e	17e	16e	17e		
Evotec	3.34 EUR	54.0	41.4	14.7	12.0	2.48	↑
Galapagos Genomics	38.77 EUR	58.7	-	25.7	-	3.90	-
Abcam	6.15 GBP	30.6	28.0	20.0	17.2	7.12	-
MorphoSys	47.42 EUR	-	-	-	-	20.95	-
Biolinvent International	2.09 SEK	-	17.4	-	19.1	6.00	-
Median for all peer group companies		30.6	28.0	20.0	17.2	7.74	-

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

EQUITIES

Flash
8 Apr 2016

Buy (prev. Buy)

Closing price 7 Apr 2016

(in EUR): 3.34

Fair value: 4.50 (prev. 4.50)

Financial ratios 2016e:

Book value per share (in EUR):	1.61
Equity ratio (in %):	69.3
Net margin (in %):	6.1
ROE (in %):	3.8
Dividend yield (in %):	0.0
Free cash flow (EUR m):	9.4
Net debt (EUR m):	-108.8

Number of shares

(million units): 132.6

Market cap

(in EUR m): 442.83

Free float (in %): 87.0

SIN: 566480

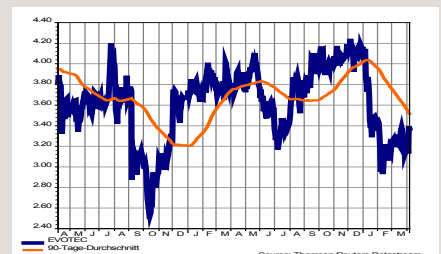
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Author: Dr. Heinz Müller, Analyst

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 FY 2015 which came in regarding sales in line, with regard to earnings above expectations. Sales were reported at Euro 127.7m (+43% vs. PY, Reuters consensus: Euro 126m) and the EBITDA at Euro 8.7m (7.7m in PY, consensus: Euro 7.95m). Evotec was able to report a liquidity position of about Euro 133.9m and expects a sales rise of ca. 15% for 2016e before milestones as well as R&D expenditure of ca. Euro 20m.

Price sensitive current issues

- » Further expansion of customer base at all business levels (EVT Execute and 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	

¹⁾⁻⁹⁾ Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

PROFIT AND LOSS ACCOUNT

Euro m	2015	2016e	2017e	2018e	2019e	2020e
Sales	127.7	134.5	146.9	160.5	175.4	191.7
% against prev. year	43%	5%	9%	9%	9%	9%
Cost of goods sold	-89.7	-86.1	-92.6	-99.5	-107.0	-116.9
Gross profit	38.0	48.4	54.4	61.0	68.4	74.8
% against prev. year	29%	27%	12%	12%	12%	9%
Sales costs	-3.1	-4.2	-4.4	-4.8	-5.3	-5.8
Administration costs	-22.0	-20.2	-22.0	-24.1	-26.3	-28.8
R&D expenditure	-18.3	-21.5	-23.5	-25.7	-28.1	-30.7
Other operating income	14.4	13.4	14.7	16.1	18.4	21.1
Other operating expenses	-8.5	-3.4	-2.9	-3.2	-5.3	-5.8
Extraordinary income/expenses	11.3	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	11.6	12.6	16.2	19.3	21.9	24.9
For information: EBIT adjusted	0.3	12.6	16.2	19.3	21.9	24.9
% against prev. year	-93%	3755%	28%	19%	14%	14%
Interest paid / received	0.9	-1.0	-1.0	-1.0	-0.9	-0.9
Profit before tax	12.5	11.6	15.2	18.3	21.0	24.0
For information: EBT adjusted	1.2	11.6	15.2	18.3	21.0	24.0
% against prev. year	-79%	873%	30%	21%	15%	15%
Income taxes from continuing operations	4.0	-3.5	-4.5	-5.5	-6.3	-7.2
Tax rate	-32%	30%	30%	30%	30%	30%
Net profit from continuing operations	16.5	8.1	10.6	12.8	14.7	16.8
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	16.5	8.1	10.6	12.8	14.7	16.8
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	16.5	8.1	10.6	12.8	14.7	16.8
thereof from continuing operations	16.5	8.1	10.6	12.8	14.7	16.8
thereof from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	131.679	131.679	131.679	131.679	131.679	131.679
IFRS earnings per share, diluted	0.13	0.06	0.08	0.10	0.11	0.13
Adjusted earnings per share, diluted (contin.)	0.01	0.06	0.08	0.10	0.11	0.13
For information						
Depreciation	9.3	10.1	10.9	11.7	12.5	13.3
EBITDA	20.9	22.8	27.1	31.0	34.4	38.2
EBITDA adjusted	9.6	22.8	27.1	31.0	34.4	38.2

Fiscal year end December

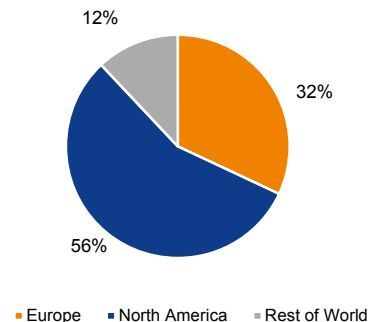
Source: Evotec and DZ BANK estimates

RATIOS

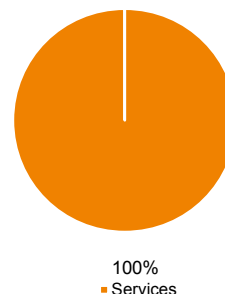
Euro	2015	2016e	2017e	2018e	2019e
Profit and loss ratios					
Sales (m)	127.7	134.5	146.9	160.5	175.4
EBITDA margin	7.5%	16.9%	18.4%	19.3%	19.6%
EBIT margin	0.3%	9.4%	11.0%	12.0%	12.5%
Net margin	1.3%	6.1%	7.2%	8.0%	8.4%
Investment ratio	7.8%	6.7%	6.1%	5.6%	5.1%
R&D as % of sales	14.4%	16.0%	16.0%	16.0%	16.0%
Admin and sales costs as % of sales	19.7%	18.1%	18.0%	18.0%	18.0%
Net other operating costs as % of sales	-4.6%	-7.5%	-8.0%	-8.0%	-7.5%
Net financial income as % of sales	0.7%	-0.8%	-0.7%	-0.6%	-0.5%
Interest cover	10.1	12.4	16.2	19.9	23.7
Average sales growth next five years	8.5%				
Average earnings growth next five years	59.1%				
Profitability ratios					
ROE	0.8%	3.8%	4.7%	5.4%	5.9%
ROCE	0.3%	9.9%	12.6%	15.0%	17.0%
Productivity ratios					
Sales per employee ('000)	157.92	147.96	158.49	169.76	181.83
EBIT per employee ('000)	0.41	13.91	17.43	20.37	22.73
Balance sheet ratios					
Equity ratio	68.9%	69.3%	69.8%	70.4%	71.0%
Long term debt and equity / Fixed assets	253.6%	265.2%	281.7%	303.7%	331.7%
Liquidity (quick ratio)	491.5%	505.0%	517.0%	533.0%	551.6%
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%	72.0%
Working capital as % of sales	21.3%	21.3%	21.5%	21.6%	21.7%
Net debt (m)	-100.4	-108.8	-119.2	-132.2	-147.7
Net debt complete (m)	-79.6	-87.4	-97.0	-109.4	-124.1
Figures per share					
Earnings per share, diluted	0.01	0.06	0.08	0.10	0.11
Free cash flow per share, diluted	0.05	0.07	0.09	0.11	0.12
Dividend per common share	0.00	0.00	0.00	0.00	0.00
Cash per share, diluted	0.78	0.85	0.93	1.02	1.14
Net debt per share, diluted	-0.76	-0.82	-0.90	-1.00	-1.11
Valuation ratios					
Enterprise value / Sales	3.5	2.5	2.2	1.9	1.7
Enterprise value / EBITDA	47.0	14.7	12.0	10.0	8.6
Enterprise value / EBIT	1379.6	26.4	20.0	16.1	13.5
EV/Sales to sales growth	0.25	0.29	0.26	0.23	0.20
PEG ratio - common shares	14.55	0.92			
Fiscal year end December					

Source: Evotec, DZ BANK estimates

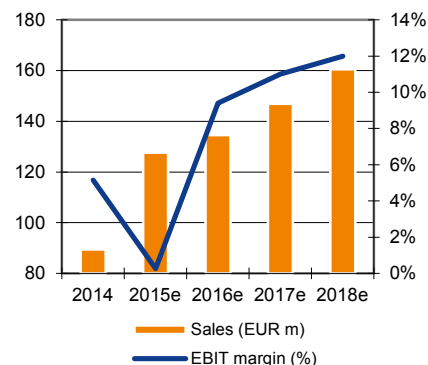
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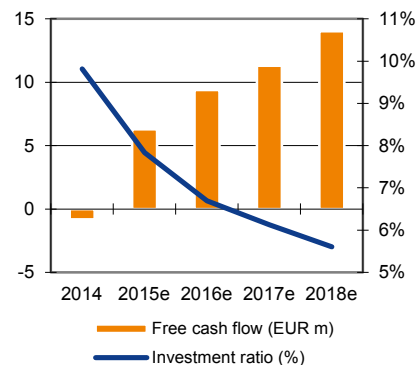
SALES BY BUSINESS SEGMENT 2014



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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RATING HISTORY

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

¹⁾-⁹⁾ Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

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