

Evotec AG (EVT.F)


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Evotec to Expand Collaboration Opportunities via Sanofi-funded Agreement; Gaps Financials Higher and Price Target from €4.00 to €4.50

BUY

Price: €3.76

Price Target: €4.50

Evotec and Sanofi are in negotiations on a strategic collaboration agreement in which Evotec will seek to secure discovery-stage development agreements on Sanofi's one million compounds (mostly in oncology), bringing €250 million into Evotec over five years.

- As noted on the conference call this morning, the agreement is at an advanced stage and is expected to close between March and May of 2015.
- Evotec is expected to lease Sanofi's Toulouse facility in France for a five year term. Accordingly, we are modeling a stable annual rate of €37.5 million in additional R&D costs and €42.5 million in guaranteed, non-performance based revenues across five years. Our models also include €37.5 million in upfront cash coming in Q215.
- As noted in our September initiation report, Evotec has secured almost 30 collaboration agreements in the last 24 months and has a partnered pipeline of 40 compounds. While Sanofi has publicly struggled to monetize its R&D efforts worldwide in the last few years (including this Toulouse facility), Sanofi appears to us to be leveraging Evotec's partnership momentum. We may revisit our revenue estimates for further Evotec collaborations in the future, but we await completion of this agreement and more insights into Sanofi's library. Evotec will retain the majority of the pre-clinical rights to any future collaboration and all of the clinical value.
- Should a few EVT Execute deals develop over the next five years from this Toulouse group, Evotec has the opportunity to extend the Toulouse lease. Given Evotec's expertise in this arena, we believe that will occur, but we're not increasing our EVT Execute revenues at this time. We expect Evotec and Sanofi will be able to strike new collaboration agreements, but we leave that as upside to our EVT Innovate models.
- Evotec is also receiving the rights to 5 pre-IND stage oncology assets (see Exhibit 3). Like other Evotec pre-clinical assets, we expect Evotec to consider its current and future value when determining when to partner them... with increasing ownership as these assets develop. We believe Sanofi's rights on these are very small.

As major pharma reorganizes, growth opportunities develop.

- Sanofi's reorganization efforts are being met by Evotec's increasingly popular expertise in drug discovery research. Most unique here is that Evotec is growing without having to commit any additional capital. 2014 guidance has not changed.

We reiterate our Buy rating on Evotec AG and increase our price target from €4.00 to €4.50.

- Our price target continues to be derived from a 15% discount of our 2016-2018 EPS estimates, which excludes new business opportunities, and we apply a 25X Price/Earnings multiple to account for the 25% growth in EPS in 2016-2018. We also account for Evotec's net cash/share and our estimate of Evotec's pipeline's value.

Key Statistics:

Market Cap (M)	€ 489.6
Cash (M)	€ 88.8
Debt (M)	€ 21.5
Enterprise Value (M)	€ 422.3
52 Week Range	€2.42 - €4.57
Exchange	Frankfurt
Shares Outstanding (M)	131.3
30D Ave Volume (000)	459.0

Source: Bloomberg

Highline's Estimates:

	2013	2014	2015
Revenue:			
1Q	€ 17.1	€ 17.6	€ 22.1
2Q	€ 19.6	€ 22.5	€ 61.6
3Q	€ 23.6	€ 18.8	€ 36.7
4Q	€ 25.6	€ 33.9	€ 38.7
FY (Dec)	€ 85.9	€ 92.8	€ 159.0

	2013	2014	2015
EPS:			
1Q	(€ 0.02)	(€ 0.03)	€ 0.01
2Q	(€ 0.01)	(€ 0.00)	€ 0.23
3Q	(€ 0.00)	(€ 0.03)	€ 0.02
4Q	€ 0.03	(€ 0.01)	€ 0.03
FY (Dec)	(€ 0.00)	(€ 0.07)	€ 0.29

Source: Bloomberg

Stock Performance:



Source: Bloomberg

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See Risks on page 6.

PLEASE SEE IMPORTANT DISCLOSURES ON PAGES 9 - 12 OF THIS REPORT

Company Summary

Evotec AG is a drug discovery company headquartered in Hamburg, Germany with operations and customers worldwide. The company is strategically focused on the discovery of novel drugs and drug targets. By design, Evotec is on the cutting edge of discovering the tools, targets and etiologies of undertreated diseases. As a result, Evotec's unique expertise in drug discovery produces scientific methods that are valued by pharmaceutical and biotechnology companies worldwide. This 21 year old company has evolved with the biotechnology and drug discovery industries. While continuing to operate a profitable drug discovery services business, in the late 2000s the company began a strategic effort to retain an interest in the clinical assets that they had primarily discovered. These core competencies are not mutually exclusive as Evotec executes similar services in their core "services business" called EVT Execute as they do in developing clinical assets where the company retains ownership, called EVT Innovate. This overlap contributes to the high net margins (~30%) on its EVT Execute segment yet provides the company an increased opportunity to develop assets ready for clinical development that partners are funding.

Evotec's team of ~650 employees provides a range of capabilities, including early-stage assay development and screening, compound management, fragment-based drug discovery, medicinal chemistry, *in vivo* pharmacology, *in vitro* ADMET and has built the largest chemical proteomics platform of any organization worldwide. Strategically, Evotec is working in several therapeutic areas, such as neuroscience, pain, metabolic diseases, oncology and inflammation. While Evotec is headquartered in Hamburg and operates two other facilities in Germany, Evotec has research laboratories in Abingdon (UK), Branford, CT and San Francisco. These US offices are reportedly gaining increasing interest from US-based research organizations. Evotec has been involved in more than 200 partnerships since its start in 1993 and has delivered more than 30 pre-clinical candidates and 20 clinical candidates both in partnerships and within its own proprietary drug discovery efforts. While Evotec traded on the NASDAQ exchange in 2008 and 2009, today its stock trades on the Frankfurt exchange with some US Bulletin Board shares trading.

Exhibit 1: Evotec's Pipeline

	Molecule	Indication	Partner	Discovery	Pre-clinical	Phase 1	Phase 2	Phase 3	Market
Clinical	EVT302	Alzheimer's disease	Roche						
	EVT201	Insomnia	JingXin						
	Somatriptan	Acromegaly	Aspireo						
	EVT100	CNS diseases	Janssen						
	EVT401	Inflammation	CONBA						
	Not Disclosed	Oncology	Boehringer						
	Not Disclosed	Oncology	Roche						
Pre-clinical	EVT770	T1D & T2D	MedImmune**						
	Multiple	Endometriosis	Bayer						
	Not Disclosed	Oncology	Boehringer						
	Not Disclosed	Pain	Boehringer						
	Not Disclosed	Pain	Novartis						
Discovery	EVT070	T2D	Boehringer						
	Multiple	T1D & T2D	MedImmune**						
	Multiple	T1D & T2D	Harvard Univ***						
	Multiple	Inflammation	UCB						
	Multiple	Kidney disease	AstraZeneca						
	Multiple	Oncology	Debiopharm						
	Multiple	Alzheimer's disease	JNJ						
	Multiple	CNS/MS	NEU ² consortium						

Sources: Evotec data and Highline Research Advisors' estimates.

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The Sanofi agreement is a multi-component strategic collaboration.

As noted in Evotec's press release, these two parties have entered into an exclusive negotiation that they expect to complete in 1H15. While there are many details to consider (see Exhibit 2), it's important to highlight that Evotec is stating that they've reached this agreement because the agreement is likely to increase Evotec's ability to increase their long-term strategic advantage, including revenues and earnings. These are expected to develop in both the EVT Execute and EVT Innovate segments outside of the €250 million in revenues from Sanofi. Simply working alongside Sanofi employees for five years with ~€100 million more in cash over five years is not the goal. Ultimately, Evotec wants to build its pipeline. The company expects to consider Sanofi's assets and if there's a potential refinement, to do so before securing a development collaboration.

- What Evotec gets and Sanofi gives:
 - €250 million over five years, beginning in 1H15, including a "sizable" upfront payment. Given management's reference to the upfront being equal to roughly nine months of the five year term, we are modeling a €37.5 million payment but acknowledge that the timing (Q1 or Q2) and amount cannot be certain at this time.
 - The €250 million provides more than adequate funding to run the Toulouse facility and programs. During the call the CEO told us the annual costs are <€40 million. While there are 200+ Toulouse employees, Evotec is only paying for the costs of the scientists, not the administrative personnel. This research facility included over 600 employees prior to Sanofi's initial attempts in 2012 to close this facility and several others as part of a broad based reduction in R&D spending.
 - The lion's share of the value in five Sanofi pre-clinical oncology assets (see Exhibit 3).
 - Increasing operating flexibility of Toulouse facility. While we aren't privy to the specifics, we don't believe Evotec is completely constrained in its ability to staff this facility and its programs appropriately over the entire five year period.
 - A library of one million compounds. As noted in the press release, "Evotec will assume management of Sanofi's global screening compound library." Evotec has been increasingly productive in monetizing its 400,000 compound library. While we wouldn't expect Evotec to have the same degree of success with Sanofi's library, we do expect additional collaborations from this strategic agreement.
- What Evotec gives and Sanofi gets:
 - Evotec's drug discovery innovations and expertise, as well as the company's collaboration experience & contacts. While this list appears shorter than what Evotec is receiving, the value of Evotec's drug discovery business is unique and in our opinion, undervalued.

Exhibit 2: Three initiatives to improve innovation efficiency

1	<p>Pipeline-building collaboration in oncology</p> <ul style="list-style-type: none"> • Pipeline of pre-clinical oncology discovery projects licensed from Sanofi to Evotec • Potential joint Cure X/Target X initiatives and multiple oncology discovery targets • Creation of fund dedicated to scientific projects with academia in France & EU
2	<p>Outsourcing alliance</p> <ul style="list-style-type: none"> • Transfer of industry-leading integrated scientific operations in Toulouse with approx. 200 scientists to Evotec • State-of-the-art compound management operations in Toulouse as "Evotec's European centre for compound management services" • Discovery Master Service Agreement for five years
3	<p>Pioneering open innovation – Combined small molecule libraries</p> <ul style="list-style-type: none"> • Sanofi's global screening library will be made available for screening to Evotec's Pharma, biotech and academic partners

Source: Evotec AG

Exhibit 3: 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
HCC	✓	✓	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

€250 million is not contingency-based.

Several of us asked during the conference call if the €250 million is contingency based. Our increased price target relies heavily upon the fact that we can expect it, rather than a typical “bio-bucks” agreement that is performance-based. We also have confidence that our cost assumption of <€40 million per year is appropriate given our discussions during and after the conference call. We believe the upfront payment is most likely to be €37.5 million (for nine months of the 60 month, €250 million agreement) with the balance to be paid on a quarterly basis. Management described the upfront as necessary to account for the potential employee departures that may occur and their subsequent severance agreements. Our annual R&D models assume the Toulouse employees remain. We don’t believe Evotec intends to, or can, eliminate positions in Toulouse, at least for the next several years. Instead, we believe there are revenue opportunities in Toulouse. Should we find in time that there are EVT Execute and/or EVT Innovate programs being produced at a steady pace from this facility, we’d increase both our revenue estimates in 2015 and beyond, as well as our expense estimates in 2020 and beyond. While management touts the ability of this deal to improve its innovation effectiveness... and we don’t disagree, we await further details on Sanofi’s library of compounds before assuming any revenues from this Sanofi collaboration.

In terms of the productivity of the employees and the quality of the assets, we don’t believe Sanofi’s efforts to close this plant are reflective of the quality of the researchers. Sanofi has reduced its R&D spending in recent years... and taken broad strokes to do so. Its 2012 attempt to close this research facility was met with strong resistance. With France’s unemployment increasing and the economy weak, there was considerable public and legislators support for the employees of the plant. Nonetheless, investors are well aware of examples in which companies have been developed from major pharma’s spin-offs and at values that provide investable opportunities. We believe that is occurring here as well.

Potential revenue ramp for EVT Innovate opportunities is difficult to interpret.

It appears Sanofi approached Evotec, but how much diligence Evotec’s scientists have been able to conduct is not known. We aren’t sure how much of an effort Sanofi has placed is monetizing their library of compounds, but we expect it will be enhanced by Evotec. But first, we’d look for Evotec’s scientists to take a few months to systematically review the library to prioritize their opportunities. If we’re right about that, we could begin to see collaborations towards the end of 2015, with the most likely timing to be 2016. More specifically, we’re looking for 10% of the potential collaborations to be reached in 2015, 70% in

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2016, 10% in 2017 and 5% in the remaining two years. Conversely, we see the opportunity for additional EVT Execute revenues to remain fairly steady across the five years. We suspect there are opportunities with Sanofi's facilities to be used today in the drug discovery services business, such as Sanofi's antibody and therapeutic protein production expertise. With some refinement, we'd look for more opportunities to develop by 2016 and with that validation the opportunity to create a new, stable Execute segment should increase by 2017 and beyond. Again, we aren't modeling any additional revenues outside of the guaranteed funding at this time. We may revisit that assumption following announcements of collaboration agreements from these Sanofi pre-clinical assets.

Exhibit 4: Sum of the Parts' Valuation of Evotec's Pipeline

	Peak Sales	Drug's Value at launch	Royalty Rate	Value of Royalty Stream	Years till Peak	Discount till Launch***	Probability	Royalty's NPV	Milestone's NPV	Product's NPV
EVT302	\$8,000,000,000	\$24,000,000,000	15%	\$3,600,000,000	7	\$1,471,232,147	6%	\$88,273,929	\$8,336,982	\$96,610,911
EVT201	\$100,000,000	\$300,000,000	15%	\$45,000,000	8	\$16,183,554	20%	\$3,236,711	\$7,192,690	\$10,429,401
Somatriptan****	\$500,000,000	\$1,500,000,000	5%	\$75,000,000	8	\$26,972,589	20%	\$5,394,518	\$14,385,381	\$19,779,899
4 Phase 1s	NA	NA	NA	NA	10	NA	NA	\$0	\$0	\$0
5 Preclinical	NA	NA	NA	NA	12	NA	NA	\$0	\$0	\$0
8 Discovery	NA	NA	NA	NA	15	NA	NA	\$0	\$0	\$0
Evotec's Pipeline Totals:								\$96,905,157	\$29,915,054	\$126,820,211

NPV of \$126.8 million = €101.7 million.

Source: Highline Research Advisors estimates

Exhibit 5: Valuation Matrix

2016		Discount rate						
		0%	5%	10%	15%	20%	25%	30%
Multiple	5	€ 0.65	€ 0.62	€ 0.59	€ 0.56	€ 0.54	€ 0.52	€ 0.50
	10	€ 1.30	€ 1.24	€ 1.18	€ 1.13	€ 1.08	€ 1.04	€ 1.00
	15	€ 1.95	€ 1.85	€ 1.77	€ 1.69	€ 1.62	€ 1.56	€ 1.50
	20	€ 2.60	€ 2.47	€ 2.36	€ 2.26	€ 2.16	€ 2.08	€ 2.00
	25	€ 3.25	€ 3.09	€ 2.95	€ 2.82	€ 2.70	€ 2.60	€ 2.50
	30	€ 3.89	€ 3.71	€ 3.54	€ 3.39	€ 3.25	€ 3.12	€ 3.00
	35	€ 4.54	€ 4.33	€ 4.13	€ 3.95	€ 3.79	€ 3.64	€ 3.50
	40	€ 5.19	€ 4.95	€ 4.72	€ 4.52	€ 4.33	€ 4.15	€ 3.99

2017		Discount rate						
		0%	5%	10%	15%	20%	25%	30%
Multiple	5	€ 0.79	€ 0.72	€ 0.66	€ 0.60	€ 0.55	€ 0.51	€ 0.47
	10	€ 1.59	€ 1.44	€ 1.31	€ 1.20	€ 1.10	€ 1.01	€ 0.94
	15	€ 2.38	€ 2.16	€ 1.97	€ 1.80	€ 1.65	€ 1.52	€ 1.41
	20	€ 3.17	€ 2.88	€ 2.62	€ 2.40	€ 2.20	€ 2.03	€ 1.88
	25	€ 3.96	€ 3.59	€ 3.28	€ 3.00	€ 2.75	€ 2.54	€ 2.35
	30	€ 4.76	€ 4.31	€ 3.93	€ 3.60	€ 3.30	€ 3.04	€ 2.81
	35	€ 5.55	€ 5.03	€ 4.59	€ 4.20	€ 3.85	€ 3.55	€ 3.28
	40	€ 6.34	€ 5.75	€ 5.24	€ 4.80	€ 4.40	€ 4.06	€ 3.75

2018		Discount rate						
		0%	5%	10%	15%	20%	25%	30%
Multiple	5	€ 1.00	€ 0.87	€ 0.75	€ 0.66	€ 0.58	€ 0.51	€ 0.46
	10	€ 2.01	€ 1.73	€ 1.51	€ 1.32	€ 1.16	€ 1.03	€ 0.91
	15	€ 3.01	€ 2.60	€ 2.26	€ 1.98	€ 1.74	€ 1.54	€ 1.37
	20	€ 4.01	€ 3.47	€ 3.02	€ 2.64	€ 2.32	€ 2.06	€ 1.83
	25	€ 5.02	€ 4.34	€ 3.77	€ 3.30	€ 2.90	€ 2.57	€ 2.28
	30	€ 6.02	€ 5.20	€ 4.52	€ 3.96	€ 3.49	€ 3.08	€ 2.74
	35	€ 7.03	€ 6.07	€ 5.28	€ 4.62	€ 4.07	€ 3.60	€ 3.20
	40	€ 8.03	€ 6.94	€ 6.03	€ 5.28	€ 4.65	€ 4.11	€ 3.65

	2016	2017	2018		
EPS:	€ 0.13	€ 0.16	€ 0.20		
Years:	1	2	3		
Estimate				Growth	
€ 0.13	2016	10%	15%	20%	na
	20	€ 2.36	€ 2.26	€ 2.16	
	25	€ 2.95	€ 2.82	€ 2.70	
	30	€ 3.54	€ 3.39	€ 3.25	
€ 0.16	2017	10%	15%	20%	22%
	20	€ 2.62	€ 2.40	€ 2.20	
	25	€ 3.28	€ 3.00	€ 2.75	
	30	€ 3.93	€ 3.60	€ 3.30	
€ 0.20	2018	10%	15%	20%	27%
	20	€ 3.02	€ 2.64	€ 2.32	
	25	€ 3.77	€ 3.30	€ 2.90	
	30	€ 4.52	€ 3.96	€ 3.49	
na	2016-2017, Average target price				24%
		10%	15%	20%	
	20	€ 2.49	€ 2.33	€ 2.18	
	25	€ 3.11	€ 2.91	€ 2.73	
	30	€ 3.74	€ 3.49	€ 3.27	
Earnings value/share			€ 2.91		
Cash & equivalents (€M)			€ 127.3		
Current debt (€M)			€ 21.9		
Net cash position (€M)			€ 105.3		
Diluted share count (M)			131.6		
Net cash per share (€M)			€ 0.80		
Earnings + Cash value (€M)			€ 3.71		
Pipeline value (€M)			€ 103.0		
Pipeline value/share			€ 0.78		
Price target			€ 4.49		

Source: Highline Research Advisors estimates

Risks That Could Impede The Realization Of Our Price Target

Drug discovery and research risks: While Evotec AG is an experienced drug discovery company there is no assurance that the company can and will be able to continue to provide research services that outside parties will agree to, and pay for.

Currency and trading risks: Because Evotec offers their services to worldwide customers there are currency risks to all investors and as such, investors may experience detrimental currency changes which may cause the value of their holdings to decline.

Partnering risks: Because Evotec AG's operating model relies on the initiation and continuation of partnerships with outside parties in mixed and fluctuating degrees of research efforts; Evotec and its shareholders are reliant upon the continued "best efforts" of outside parties.

Evotec AG															Michael J Higgins			
Income Statement, in € (000)															Managing Director, Equity Research			
															Highline Research Advisors, LLC			
															212-920-3582, mhiggins@highlineresearchadvisors.com			
Fiscal Period:	Actual								Projected									
	2010	2011	2012	2013	Q114	Q214	Q314	Q414	2014	Q115	Q215	Q315	Q415	2015	2016	2017	2018	
Revenue	55,262	80,128	87,265	85,938	17,611	22,474	18,848	33,880	92,813	22,052	24,057	26,062	28,067	100,238	110,262	121,288	133,417	
Cost of revenue	(30,916)	(45,143)	(56,242)	(54,716)	(12,998)	(15,296)	(13,973)	(24,089)	(66,356)	(13,452)	(14,434)	(15,637)	(16,559)	(60,083)	(63,952)	(69,134)	(73,379)	
Sanofi revenue	0	0	0	0	0	0	0	0	0	0	37,500	10,625	10,625	58,750	42,500	42,500	42,500	
Gross Profit	24,346	34,985	31,023	31,222	4,613	7,178	4,875	9,791	26,457	8,600	47,123	21,050	22,132	98,905	88,810	94,654	102,538	
Operating income and (expenses)																		
Research & development, Evotec	(6,116)	(8,437)	(8,340)	(9,664)	(2,972)	(3,312)	(2,897)	(4,619)	(13,800)	(3,087)	(3,368)	(3,649)	(3,929)	(14,033)	(15,437)	(16,980)	(18,678)	
Research & development, Toulouse	0	0	0	0	0	0	0	0	0	0	(9,375)	(9,375)	(9,375)	(28,125)	(37,500)	(37,500)	(37,500)	
Selling, general & administrative	(15,956)	(15,760)	(16,301)	(16,597)	(4,356)	(4,524)	(3,917)	(5,766)	(18,563)	(4,410)	(4,811)	(5,212)	(5,613)	(20,048)	(20,950)	(21,832)	(22,681)	
Amortization of intangible rights	(672)	(1,703)	(2,768)	(3,222)	(760)	(593)	(552)	(552)	(2,457)	(378)	(413)	(447)	(482)	(1,720)	(1,204)	(843)	(590)	
Impairment of intangible assets	0	(2,058)	(3,505)	(22,023)	0	0	(8,735)	0	(8,735)	0	0	0	0	0	0	0	0	
Other operating income	4,536	1,426	2,202	4,410	452	1,881	6,546	500	9,379	1,517	1,655	1,793	1,930	6,895	7,032	7,173	7,316	
Other operating expenses	(4,423)	(4,747)	(5,513)	(1,980)	(459)	(713)	(480)	(480)	(2,132)	(452)	(493)	(534)	(576)	(2,056)	(2,097)	(2,139)	(2,182)	
Total operating expenses	(22,631)	(29,778)	(34,225)	(52,573)	(8,095)	(7,261)	(10,035)	(10,917)	(36,308)	(6,812)	(16,806)	(17,425)	(18,044)	(59,087)	(70,155)	(72,121)	(74,314)	
Operating income	1,715	5,207	(3,202)	(21,351)	(3,482)	(83)	(5,160)	(1,125)	(9,850)	1,789	30,317	3,625	4,088	39,818	18,655	22,533	28,223	
Other non-operating income (expenses)																		
Interest income	241	413	655	261	125	40	68	68	301	68	74	80	86	307	313	319	326	
Interest expense	(866)	(1,858)	(1,859)	(1,870)	(449)	(381)	(465)	(465)	(1,760)	(395)	(431)	(467)	(503)	(1,795)	(1,831)	(1,868)	(1,905)	
Total non-operating income (expense)	2,152	49	(1,812)	(2,297)	(572)	(265)	1,003	(397)	(231)	(327)	(357)	(387)	(417)	(1,488)	(1,518)	(1,548)	(1,579)	
Income before taxes	3,867	5,256	(5,014)	(23,648)	(4,054)	(348)	(4,157)	(1,522)	(10,081)	1,461	29,960	3,238	3,671	38,330	17,137	20,985	26,644	
Current tax income (expense)	(676)	(1,153)	(793)	(299)	0	(34)	62	0	28	0	0	0	0	0	0	0	0	
Deferred tax income (expense)	(206)	2,548	8,285	(1,486)	48	(40)	527	0	535	0	0	0	0	0	0	0	0	
Total taxes	(882)	1,395	7,492	(1,785)	48	(74)	589	0	563	0	0	0	0	0	0	0	0	
Net Income (loss)	2,985	6,651	2,478	(25,433)	(4,006)	(422)	(3,568)	(1,522)	(9,518)	1,461	29,960	3,238	3,671	38,330	17,137	20,985	26,644	
Weighted average shares outstanding (000)	9,013	116,022	117,296	121,215	131,162	131,252	131,325	131,415	131,289	131,506	131,596	131,687	131,777	131,641	132,004	132,367	132,731	
Net Income (loss) per share (basic)	€ 0.33	€ 0.06	€ 0.02	(€ 0.21)	(€ 0.03)	(€ 0.00)	(€ 0.03)	(€ 0.01)	(€ 0.07)	€ 0.01	€ 0.23	€ 0.02	€ 0.03	€ 0.29	€ 0.13	€ 0.16	€ 0.20	
Net Income (loss) per share (diluted)	€ 0.33	€ 0.06	€ 0.02	(€ 0.21)	(€ 0.03)	(€ 0.00)	(€ 0.03)	(€ 0.01)	(€ 0.07)	€ 0.01	€ 0.23	€ 0.02	€ 0.03	€ 0.29	€ 0.13	€ 0.16	€ 0.20	

Sources: SEC, company reports and Highline Research Advisors estimates

Evotec AG																Michael J Higgins	
Balance Sheet, in € (000)																Managing Director, Equity Research	
																Highline Research Advisors, LLC	
																212-920-3582, mhiggins@highlineresearchadvisors.com	
Fiscal Period:	Actual							Projected									
	2010	2011	2012	2013	Q114	Q214	Q314	Q414	2014	Q115	Q215	Q315	Q415	2015	2016	2017	2018
ASSETS																	
Current assets:																	
Cash and cash equivalents	21,091	17,777	39,065	45,644	39,638	42,247	55,164	53,642	53,642	55,103	85,063	88,301	91,972	91,972	109,109	130,094	156,738
Investments	46,303	44,651	25,094	50,499	50,644	43,303	35,136	35,171	35,171	35,206	35,242	35,277	35,312	35,312	35,453	35,595	35,737
Trade accounts receivables	11,869	10,393	15,053	17,777	13,117	16,959	14,130	14,201	14,201	14,272	14,343	14,415	14,487	14,487	14,777	15,072	15,374
Inventories	2,819	3,556	2,445	2,358	2,890	2,823	3,317	3,334	3,334	3,350	3,367	3,384	3,401	3,401	3,469	3,538	3,609
Current tax receivables	569	201	480	433	401	399	510	513	513	515	518	520	523	523	533	544	555
Deferred tax asset	0	2,373	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other current financial assets	1,142	1,355	1,478	1,995	1,391	2,091	1,139	1,145	1,145	1,150	1,156	1,162	1,168	1,168	1,191	1,215	1,239
Prepaid expenses and other current assets	2,899	2,965	4,489	3,820	7,997	5,943	5,845	5,874	5,874	5,904	5,933	5,963	5,993	5,993	6,112	6,235	6,359
Assets classified as held for sale	0	62	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total current assets	86,692	83,333	88,104	122,526	116,078	113,765	115,241	113,879	113,879	115,500	145,621	149,021	152,855	152,855	170,645	192,293	219,611
Non-current assets:																	
Long-term investments	10	10	10	10	10	12	13	13	13	13	13	13	13	13	14	14	14
Property, plant and equipment	18,487	24,946	27,181	24,239	23,791	23,962	23,407	23,524	23,524	23,642	23,760	23,879	23,998	23,998	24,478	24,968	25,467
Intangible assets, excluding goodwill	57,615	67,652	63,266	39,826	39,075	38,960	30,294	30,445	30,445	30,598	30,751	30,904	31,059	31,059	31,680	32,314	32,960
Goodwill	25,979	42,202	42,342	40,136	40,297	43,619	44,438	44,660	44,660	44,883	45,108	45,333	45,560	45,560	46,471	47,401	48,349
Deferred tax asset	0	0	2,815	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other non-current financial assets	3,076	70	75	77	77	77	77	77	77	78	78	79	79	79	81	82	84
Other non-current assets	0	0	1,634	566	297	227	183	184	184	185	186	187	188	188	191	195	199
Total non-current assets	105,167	134,880	137,323	104,854	103,547	106,857	98,412	98,904	98,904	99,399	99,896	100,395	100,897	100,897	102,915	104,973	107,073
Total assets	191,859	218,213	225,427	227,380	219,625	220,622	213,653	212,783	212,783	214,899	245,517	249,416	253,752	253,752	273,559	297,266	326,684
LIABILITIES AND STOCKHOLDERS' EQUITY																	
Current Liabilities																	
Current loan liabilities	8,356	13,174	13,223	17,222	17,177	17,133	17,088	17,173	17,173	17,259	17,346	17,432	17,519	17,519	17,870	18,227	18,592
Current portion of finance lease obligations	109	32	1	5	5	5	5	5	5	5	5	5	5	5	5	5	5
Trade accounts payable	6,980	10,134	6,363	6,653	6,150	5,229	5,098	5,123	5,123	5,149	5,175	5,201	5,227	5,227	5,331	5,438	5,547
Advanced payments received	1,421	782	232	232	622	208	210	211	211	212	213	214	215	215	220	224	228
Provisions	6,656	11,045	6,914	5,788	3,440	3,895	3,596	3,614	3,614	3,632	3,650	3,668	3,687	3,687	3,761	3,836	3,912
Deferred revenues	7,675	5,875	5,548	6,051	5,453	4,037	4,772	4,796	4,796	4,820	4,844	4,868	4,892	4,892	4,990	5,090	5,192
Current income tax payables	773	492	502	741	162	250	198	199	199	200	201	202	203	203	207	211	215
Other current financial liabilities	225	1,147	234	342	136	164	135	136	136	136	137	138	138	138	141	144	147
Other current liabilities	607	152	865	1,919	1,246	728	818	822	822	826	830	834	839	839	855	873	890
Total current liabilities	32,802	42,833	33,882	38,953	34,391	31,649	31,920	32,080	32,080	32,240	32,401	32,563	32,726	32,726	33,381	34,048	34,729
Non-current liabilities																	
Non-current loan liabilities	3,500	2,359	4,178	0	978	3,478	4,319	4,341	4,341	4,362	4,384	4,406	4,428	4,428	4,517	4,607	4,699
Long-term finance lease obligations	32	1	0	14	13	11	8	8	8	8	8	8	8	8	8	9	9
Deferred tax liabilities	6,660	9,904	2,099	1,245	1,248	1,508	1,095	1,100	1,100	1,106	1,112	1,117	1,123	1,123	1,145	1,168	1,191
Provisions	12,722	14,618	18,817	18,586	18,911	20,057	14,428	14,500	14,500	14,573	14,646	14,719	14,792	14,792	15,088	15,390	15,698
Deferred revenues	3,506	9	12,516	8,382	6,926	5,846	5,140	5,166	5,166	5,192	5,217	5,244	5,270	5,270	5,375	5,483	5,592
Other non-current financial liabilities	0	1,244	1,388	1,233	1,195	1,156	1,118	1,124	1,124	1,129	1,135	1,141	1,146	1,146	1,169	1,193	1,216
Total non-current liabilities	26,420	28,135	38,998	29,460	29,271	32,056	26,108	26,239	26,239	26,370	26,502	26,634	26,767	26,767	27,303	27,849	28,406
Stockholders' equity:																	
Share capital	115,596	118,316	118,547	131,460	131,541	131,605	131,685	131,758	131,758	131,830	132,121	132,412	132,704	132,704	133,875	135,056	136,247
Treasury shares	0	(1)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Additional paid-in capital	658,888	663,820	665,918	686,767	687,140	687,501	687,527	687,935	687,935	688,345	688,539	688,735	688,933	688,933	689,730	690,553	691,404
Accumulated other comprehensive income	(26,679)	(25,995)	(25,501)	(27,410)	(26,862)	(25,911)	(23,742)	(23,861)	(23,861)	(23,980)	(24,100)	(24,220)	(24,342)	(24,342)	(24,828)	(25,325)	(25,831)
Accumulated deficit	(615,644)	(608,895)	(606,417)	(631,850)	(635,856)	(636,278)	(639,845)	(641,367)	(641,367)	(639,906)	(609,946)	(606,708)	(603,037)	(603,037)	(585,900)	(564,915)	(538,271)
Non-controlling interest	476	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Stockholders' equity	132,637	147,245	152,547	158,967	155,963	156,917	155,625	154,465	154,465	156,289	186,614	190,219	194,259	194,259	212,877	235,369	263,549
Total liabilities and stockholders' equity	191,859	218,213	225,427	227,380	219,625	220,622	213,653	212,783	212,783	214,899	245,517	249,416	253,752	253,752	273,560	297,266	326,684

Sources: SEC, company reports and Highline Research Advisors estimate

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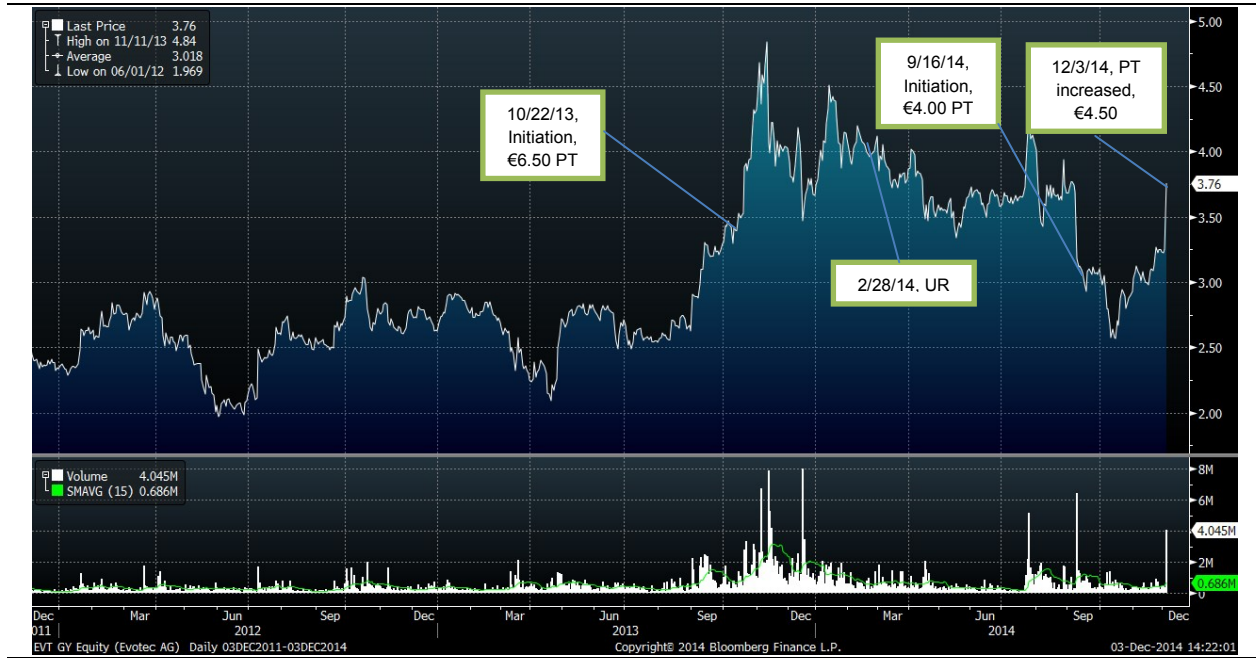
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3 Year Price Chart – Evotec AG



Source: Bloomberg

3 Year Price Chart – MERRIMAN CAPITAL INC.



Source: Bloomberg

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