Evotec AG

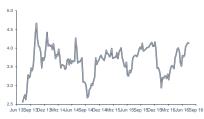
Buy → | Target price : 5.40 EUR vs 5.00 EUR 🤊

Price (08/11/2016): 4.13 EUR | Upside: 31 %

Est.chg 2016e 2017eEPS 122.6% 41.0%

Raising estimates and TP to € 5.40 after strong Q2 2016 numbers

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Evotec AG —Evotec AG	Relative to Health	Care (Rebased)	
Capital			
EVT GY EVTG.DE			
Market Cap (EURm)			538
Enterprise value (EURm)			576
Extrema 12 months		2.90	- 4.28
Free Float (%)			ns
Performance (%)	1m	3m	12m
Absolute	8.2	8.5	6.7
Perf. rel. Country Index	3.9	4.7	21.2
Perf. rel. Health Care	8.2	8.5	6.7
P&L	12/16e	12/17e	12/18e
Sales (EURm)	156	172	183
EBITDA (EURm)	28.6	28.6	30.2
Current EBIT (EURm)	16.2	16.4	17.2
Attr. net profit (EURm)	10.6	9.8	11.0
Adjusted EPS (EUR)	0.08	0.08	0.08
Dividend (EUR)	0.00	0.00	0.00
P/E (x)	50.9	54.6	49.0
P/B (x)	2.7	2.6	2.5
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	1.8	2.1	2.5
EV/Sales (x)	3.70	3.31	3.04
EV/EBITDA (x)	20.1	19.8	18.5
EV/Current EBIT (x)	35.5	34.7	32.4
Gearing (%)	-13	-17	-21

Next Events

Net Debt/EBITDA(x)

10.11.2016 Q3 Results

H1 16 results: Another strong quarter

Evotec (EVT) posted strong H1 16 results with adjusted EBITDA better than expected. Revenue was up +37% yoy to \in 75.5m (Oddo estimate: \in 74.9m; Cons.: \in 76.1m) driven by: 1) growth in the core EVT Execute business; 2) the positive contribution from the Sanofi collaboration; and 3) a milestone payment. Adj. EBITDA beat expectations amounting to \in 15.8m in H1 16 (Oddo est.: \in 14.4; Cons: \in 13.0m) equating to a 21% margin (Oddo est.: 19%; cons.: 17%).

The management has confirmed its full-year 2016 guidance and expects to reach >15% revenue growth (excl. milestones, upfronts and licences). The company anticipates R&D costs in 2016 to reach c. € 20m and CAPEX investments should be up to € 10m. Liquidity at 31 December 2016 is expected at a similar level than the previous year.

Evotec expects adj. EBITDA to more than double yoy mainly as a result of an "increased margin contribution and a positive outlook for the remainder of the year". It is worth mentioning that Evotec communicates its guidance excluding milestones payments, which normally occur at the back end of the year.

Lifting estimates after strong Q2 results/ 2016 adj. EBITDA estimate 36% ahead of consensus

After impressive results in H1 16, we have adjusted upwards our estimates. Although a few brokers have already upgraded their estimates for 2016, currently market consensus still looks too conservative, in our view. Given that in H1 16 Evotec has already achieved \in 15.8m of adj. EBITDA we think that \in c.21m consensus estimate (Bloomberg) is conservative and suggests a rapid margin decline in the second half of the year. However we do not see any reasons to justify this assumption.

We believe that revenues excluding milestone payments will continue their strong momentum over the rest of the year. Furthermore, we expect milestone payments to be at least as high as in the first half of the year, which means that a high gross margin of 34.5% could be a good proxy for the entire year (Oddo Seydler 2016 estimate: 34.9%). Regarding R&D and SG&A expenses, we expect a modest growth in H2 16. R&D tax credits from France and UK, which boosted the company's margin in H1 16 are likely to continue to increase as the R&D spending in France will pick up further. We therefore lift our adj. EBITDA estimate to € 28.6m (previous: € 21m) which is 36% above the consensus.

TP upgraded to € 5.40 (vs € 5.00); Buy rating confirmed

Having upgraded our estimates, our SOTP valuation now indicates a fair value of € 5.38/share (prev.: € 5.10). We remain convinced that Evotec is undervalued, as the share price appears to reflect only the Execute business (services for partners: Oddo est. NPV: € 501m or € 3.85/share) and net cash (c.€ 98.5m or € 0.76/share), but overlooks the company's Innovate business with >70 proprietary products in the pipeline (Oddo est. NPV: € 100m or € 0.8/share). As such, we increase our TP to € 5.40 (prev.: € 5.00) and reiterate our Buy recommendation.

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EVTG.DE EVT GY	В	uy			Р	rice 4	I.13EUR	
Biotechnology Germany	Up	side 3	30.72%		Т	P 5	5.40EUR	
PER SHARE DATA (EUR)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Adjusted EPS Reported EPS	0.05 0.05	0.03 0.03	-0.22 -0.22	-0.10 -0.10	0.13 0.13	0.08 0.08	0.08 0.08	0.08 0.08
Growth in EPS(%)	ns	-48.3%	ns	-0.10 ns	ns	-36.0%	-6.9%	11.5%
Net dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FCF to equity per share	0.02	0.04	-0.01	-0.11	0.05	0.07	0.09	0.10
Book value per share Number of shares market cap	1.24 118.32	1.29 118.32	1.22 130.13	1.22 130.13	1.43 130.13	1.51 130.13	1.58 130.13	1.66 130.13
Number of diluted shares	118.32	118.32	130.13	130.13	130.13	130.13	130.13	130.13
VALUATION	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
12m highest price	3.40 1.72	3.04 1.97	4.84	4.51	4.28 3.20	4.20 2.90		
12m lowest price (*) Reference price	2.63	2.57	2.09 2.99	2.57 3.59	3.82	4.13	4.13	4.13
Capitalization	312	304	390	467	497	538	538	538
Restated Net debt	-44.5	-45.1	-77.3	-64.8	-109.4	-26.5	-34.6	-44.9
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value) Provisions	0.0 42	0.0 47	0.0 43	0.0 32	0.0 65	0.0 65	0.0 65	0.0 65
Enterprise Value	309	306	355	435	452	576	568	557
P/E (x)	49	92	ns	ns	30	51	55	49
P/CF (x)	24	34	41	88	34	23	24	22
Net Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%) P/B incl. GW (x)	0.7% 2.12	1.5% 1.99	ns 2.45	ns 2.95	1.3% 2.68	1.8% 2.74	2.1% 2.61	2.5% 2.48
P/B excl. GW (x)	2.97	2.75	3.28	4.11	3.55	3.58	3.36	3.14
EV/Sales (x)	3.86	3.50	4.13	4.86	3.54	3.70	3.31	3.04
EV/EBITDA (x)	26	30	34	56	52	20	20	18
EV/EBIT (x) (*) historical average price	54	218	289	ns	ns	35	35	32
PROFIT AND LOSS (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales	80	87	86	89	128	156	172	183
EBITDA Depreciations	12.0 -6.2	10.2 -8.8	10.4 -9.2	7.7 -8.5	8.7 -11.9	28.6 -12.4	28.6 -12.3	30.2 -13.0
Current EBIT	5.8	1.4	1.2	-0.8	-3.3	16.2	16.4	17.2
Published EBIT	4.8	-2.4	-24.4	-12.1	11.6	16.2	16.4	17.2
Net financial income	0.0	-1.8	-2.3	1.2	0.9	-0.9	-2.0	-1.2
Corporate Tax Net income of equity-accounted companies	1.4 0.0	7.5 0.0	-1.8 0.0	-1.8 0.0	4.0 0.0	-4.7 0.0	-4.5 0.0	-5.0 0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	6.3 6.3	3.3	-28.5 -28.5	-12.6	16.5	10.6 10.6	9.8 9.8	11.0 11.0
Adjusted attributable net profit BALANCE SHEET (EURm)	12/11	3.3 12/12	-20.5 12/13	-12.6 12/14	16.5 12/15	12/16e	12/17e	12/18e
Goodwill	42	42	40	45	46	46	46	46
Other intangible assets	68	63	40	30	25	26	26	27
Tangible fixed assets WCR	25 6.2	27 18	24 18	24 26	38 21	38 24	38 26	36 27
Financial assets	3.9	4.4	2.1	1.2	12	12	12	12
Ordinary shareholders equity	147	153	159	158	186	196	206	217
Minority interests Sharahaldan aguity	0.0 147	0.0 153	0.0 159	0.0 158	1.6 187	1.6 197	1.6 207	1.6 218
Shareholders equity Non-current provisions	42	47	43	32	65	65	207 65	216 65
Net debt	-44.5	-45.1	-77.3	-64.8	-109.4	-26.5	-34.6	-44.9
CASH FLOW STATEMENT (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
EBITDA Change in WCR	12.0 -3.4	10.2 3.9	10.4 -5.8	7.7 -14.8	8.7 3.2	28.6 -3.4	28.6 -1.5	30.2 -1.2
Interests & taxes	-1.2	-0.9	-0.6	0.8	-1.4	-5.9	-6.5	-6.2
Others	2.4	-0.5	-0.3	-3.2	7.1	0.0	0.0	0.0
Operating Cash flow	9.7	12.8	3.6	-9.5	17.6	19.4	20.6	22.7
CAPEX Free cash-flow	-7.6 2.2	-8.1 4.6	-4.6 -0.9	-5.3 -14.8	-11.2 6.5	-9.7 9.7	-9.5 11.1	-9.3 13.4
Acquisitions / disposals	-7.5	15.9	-27.0	7.2	-11.9	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net capital increase Others	-0.1	-0.1 3.7	32.0	4.0 3.9	6.0	8.0	10.0 0.0	12.0 0.0
Change in net debt	1.7 -7.3	20.2	1.4 5.7	-2.9	3.6 2.7	0.0 14.7	18.1	22.3
GROWTH MARGINS PRODUCTIVITY	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales growth	45.0%	8.9%	-1.5%	4.1%	42.7%	21.9%	10.4%	6.7%
Lfl sales growth Current EBIT growth	ns	-75.7%	-12.3%	ns	ns	ns	0.8%	5.2%
Growth in EPS(%)	ns	-48.3%	ns	ns	ns	-36.0%	-6.9%	11.5%
Net margin	7.9%	3.8%	-33.1%	-14.1%	12.9%	6.8%	5.7%	6.0%
EBITDA margin	14.9%	11.7%	12.1%	8.6%	6.8%	18.4%	16.7%	16.5%
Current EBIT margin CAPEX / Sales	7.2% -10.2%	1.6% -9.4%	1.4% -6.0%	-0.9% -5.9%	-2.5% -8.7%	10.4% -6.2%	9.5% -5.5%	9.4% -5.1%
WCR / Sales	7.7%	20.1%	21.0%	28.5%	16.5%	15.7%	15.1%	14.8%
Tax Rate	-25.8%	ns	ns	-78.8%	-20.4%	30.9%	31.3%	31.3%
Normative tax rate	0.0	0.0	0.0	0.7	4.0	4.0	4.0	4.0
Asset Turnover ROCE post-tax (normative tax rate)	0.6	0.6	0.6	0.7	1.0	1.2	1.3	1.3
ROCE post-tax (normative tax rate) ROCE post-tax hors GW (normative tax rate)	-	-	-	-	-	-	-	-
ROE	4.5%	2.2%	-18.3%	-8.0%	9.6%	5.5%	4.9%	5.2%
DEBT RATIOS Goaring	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Gearing Net Debt / Market Cap	-30% -0.14	-30% -0.15	-49% -0.20	-41% -0.14	-58% -0.22	-13% -0.05	-17% -0.06	-21% -0.08
Net debt / EBITDA	ns	ns	ns	ns	ns	ns	ns	ns
EBITDA / net financial charges	8.3	8.5	6.5	6.7	7.3	64.6	117.8	124.1

Evotec AG Friday 12 August 2016



Mention of conflicts of interest

Valuation method

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo Securities' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

· Our stock market recommendations

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe. Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps). Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps). Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

- The prices of the financial instruments used and mentioned in this document are the closing prices.
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Recommendation and target price changes history over the last 12 months for the company analysed in this re

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
12.08.16	Achat	5.40	4.13	Igor Kim,CFA
19.07.16	Achat	5.00	4.09	Igor Kim,CFA
10.05.16	Achat	4.90	3.56	Igor Kim,CFA
29.01.16	Achat	4.60	3.42	Igor Kim,CFA
12.08.15	Achat	4.10	3.74	Igor Kim,CFA
10.08.15	Achat	4.00	3.85	Igor Kim,CFA
07.08.15	Achat	3.90	3.74	Igor Kim,CFA

Recommendation split				
		Buy	Neutral	Reduce
Our whole coverage	(412)	52%	37%	11%
Liquidity providers coverage	(136)	63%	31%	6%
Research service coverage	(64)	67%	30%	3%
Investment banking services	(23)	65%	30%	4%

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Evotec AG Friday 12 August 2016



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