



Evotec AG

Buy → | Target 5.60 EUR vs 5.40 EUR ↗

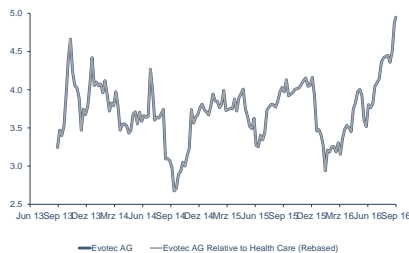
Price (09/28/2016) : 4.95 EUR | Upside : 13 %

Est.chg	2016e	2017e
EPS	0.0%	0.0%

Raising TP to € 5.6 on dense newsflow

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Capital			
EVT GY EVTG.DE			
Market Cap (EURm)			644
Enterprise value (EURm)			682
Extrema 12 months	2.90	-	4.95
Free Float (%)			ns
Performance (%)			
	1m	3m	12m
Absolute	11.6	38.4	22.4
Perf. rel. Country Index	12.0	27.9	22.0
Perf. rel. Health Care	11.6	38.4	22.4
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)	61.0	65.5	58.7
P/B (x)	3.3	3.1	3.0
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	1.5	1.7	2.1
EV/Sales (x)	4.39	3.93	3.62
EV/EBITDA (x)	23.8	23.6	22.0
EV/Current EBIT (x)	42.0	41.2	38.6
Gearing (%)	-13	-17	-21
Net Debt/EBITDA(x)	ns	ns	ns

Next Events

10.11.2016 Q3 Results

Alliances, milestone payments, research collaborations: dense newsflow driving share price

Over the last quarter Evotec has generated heavy newsflow, announcing: 1) a cooperation with Bayer to develop treatments for chronic kidney diseases (CKD); 2) an alliance with C4X Discovery to develop new small molecule drugs for the treatment of cancer and autoimmune diseases; 3) a research collaboration with Inserm Transfert; and 4) a further pre-clinical milestone in its endometriosis alliance with Bayer.

Evotec and Bayer to develop new treatments for kidney diseases

The new five-year cooperation with Bayer to treat kidney diseases provides the most significant long-term upside with potential milestone payments of over € 300m. This is a multi-target research partnership to develop multiple clinical candidates for the treatment of CKD in diabetes patients, a leading cause of end-stage renal disease. Under this agreement Bayer has exclusive access to selected candidates and to Evotec's CureNephron target pipeline and will be responsible for any subsequent clinical development and commercialisation. Evotec will receive a minimum of € 14m over the contract period, and is eligible to receive pre-clinical, clinical and sales milestones of over € 300m, as well as double-digit percentage royalties of net sales.

Estimates unchanged as they already incorporated potential milestone and small upfront payments

Short to mid-term term, we expect Evotec's revenues to be supported by the € 14m in upfront payments from the kidney diseases alliance with Bayer, which we assume will be evenly distributed over the 5-year contract period (i.e. ~€ 2.8m p.a.). The milestone payments from the endometriosis alliance with Bayer – we expect a low single-digit €m amount – should also support Evotec's Q3 2016 revenue. We leave our estimates unchanged as they already incorporate potential milestone payments.

TP upped to € 5.6; Buy confirmed; shares still undervalued despite recent surge

We had previously indicated that Evotec was likely to see rich newsflow in H2 16, and this was the case in Q3 16. The above-mentioned partnerships offer long-term potential (driven by milestones and royalties) which in our view is not adequately reflected in the share price. According to our SOTP valuation, the current share price of € 5.0 mostly reflects the Execute business (services for partners: Oddo Seydler estimated NPV: € 507.4m or € 3.90/share) and net cash (c.€ 116.8m or € 0.90/share), but overlooks the company's Innovate business with >70 proprietary products in the pipeline (Oddo est. NPV: € 106m or € 0.80/share). Having included € 14m upfront payment from Bayer, we raise our TP from € 5.4 to € 5.6 and confirm our Buy recommendation.

Igor Kim, CFA (Analyst)

+49 (69) 92 05 48 15

igor.kim@oddoseydler.com

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	Buy		13.13%		Price 4.95EUR		TP 5.60EUR	
	Upside							
PER SHARE DATA (EUR)								
Adjusted EPS	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Reported EPS	0.05	0.03	-0.22	-0.10	0.13	0.08	0.08	0.08
Growth in EPS(%)	ns	-48.3%	ns	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	1.24	1.29	1.22	1.22	1.43	1.51	1.58	1.66
Number of shares market cap	118.32	118.32	130.13	130.13	130.13	130.13	130.13	130.13
Number of diluted shares	118.32	118.32	130.13	130.13	130.13	130.13	130.13	130.13
VALUATION								
12m highest price	3.40	3.04	4.84	4.51	4.28	4.95		
12m lowest price	1.72	1.97	2.09	2.57	3.20	2.90		
(*) Reference price	2.63	2.57	2.99	3.59	3.82	4.95	4.95	4.95
Capitalization	312	304	390	467	497	644	644	644
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)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	42.1	47.3	42.7	32.2	64.7	64.7	64.7	64.7
Enterprise Value	309	306	355	435	452	682	674	664
P/E (x)	49.1	92.4	ns	ns	30.1	61.0	65.5	58.7
P/CF (x)	23.7	34.4	41.1	87.8	34.4	28.1	29.2	26.9
Net Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	0.7%	1.5%	ns	ns	1.3%	1.5%	1.7%	2.1%
P/B incl. GW (x)	2.12	1.99	2.45	2.95	2.68	3.29	3.13	2.97
P/B excl. GW (x)	2.97	2.75	3.28	4.11	3.55	4.29	4.02	3.77
EV/Sales (x)	3.86	3.50	4.13	4.86	3.54	4.39	3.93	3.62
EV/EBITDA (x)	25.8	29.9	34.1	56.4	52.0	23.8	23.6	22.0
EV/EBIT (x)	53.6	218	289	ns	ns	42.0	41.2	38.6
(*) historical average price								
PROFIT AND LOSS (EURm)								
Sales	80	87	86	89	128	156	172	183
EBITDA	12.0	10.2	10.4	7.7	8.7	28.6	28.6	30.2
Depreciations	-6.2	-8.8	-9.2	-8.5	-11.9	-12.4	-12.3	-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	1.4	7.5	-1.8	-1.8	4.0	-4.7	-4.5	-5.0
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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	3.3	-28.5	-12.6	16.5	10.6	9.8	11.0
Adjusted attributable net profit	6.3	3.3	-28.5	-12.6	16.5	10.6	9.8	11.0
BALANCE SHEET (EURm)								
Goodwill	42.2	42.3	40.1	44.8	45.6	45.6	45.6	45.6
Other intangible assets	67.7	63.3	39.8	30.2	25.2	25.8	26.5	27.4
Tangible fixed assets	24.9	27.2	24.2	24.0	38.3	38.0	37.5	36.0
WCR	6.2	17.5	18.1	25.5	21.1	24.5	26.0	27.2
Financial assets	3.9	4.4	2.1	1.2	12.0	12.0	12.0	12.0
Ordinary shareholders equity	147	153	159	158	186	196	206	217
Minority interests	0.0	0.0	0.0	0.0	1.6	1.6	1.6	1.6
Shareholders equity	147	153	159	158	187	197	207	218
Non-current provisions	42.1	47.3	42.7	32.2	64.7	64.7	64.7	64.7
Net debt	-44.5	-45.1	-77.3	-64.8	-109.4	-26.5	-34.6	-44.9
CASH FLOW STATEMENT (EURm)								
EBITDA	12.0	10.2	10.4	7.7	8.7	28.6	28.6	30.2
Change in WCR	-3.4	3.9	-5.8	-14.8	3.2	-3.4	-1.5	-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	-7.6	-8.1	-4.6	-5.3	-11.2	-9.7	-9.5	-9.3
Free cash-flow	2.2	4.6	-0.9	-14.8	6.5	9.7	11.1	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	-0.1	-0.1	32.0	4.0	6.0	8.0	10.0	12.0
Others	1.7	3.7	1.4	3.9	3.6	0.0	0.0	0.0
Change in net debt	-7.3	20.2	5.7	-2.9	2.7	14.7	18.1	22.3
GROWTH MARGINS PRODUCTIVITY								
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	7.2%	1.6%	1.4%	-0.9%	-2.5%	10.4%	9.5%	9.4%
CAPEX / Sales	-10.2%	-9.4%	-6.0%	-5.9%	-8.7%	-6.2%	-5.5%	-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								
Asset Turnover	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								
Gearing	-30%	-30%	-49%	-41%	-58%	-13%	-17%	-21%
Net Debt / Market Cap	-0.14	-0.15	-0.20	-0.14	-0.22	-0.04	-0.05	-0.07
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

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 report

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
29.09.16	Buy	5.60	4.95	Igor Kim,CFA
12.08.16	Buy	5.40	4.36	Igor Kim,CFA
19.07.16	Buy	5.00	4.09	Igor Kim,CFA
10.05.16	Buy	4.90	3.56	Igor Kim,CFA
29.01.16	Buy	4.60	3.42	Igor Kim,CFA
12.08.15	Buy	4.10	3.74	Igor Kim,CFA
10.08.15	Buy	4.00	3.85	Igor Kim,CFA

Recommendation split

		Buy	Neutral	Reduce
Our whole coverage	(412)	49%	39%	11%
Liquidity providers coverage	(145)	57%	38%	6%
Research service coverage	(64)	67%	30%	3%
Investment banking services	(28)	71%	29%	

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