



Evotec AG

Buy → | Target price : 6.10 EUR vs 5.60 EUR ↗

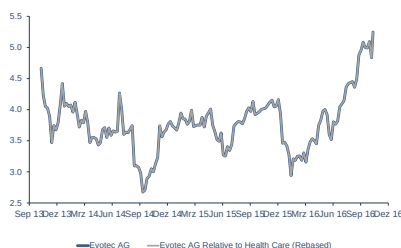
Price (11/09/2016) : 5.25 EUR | Upside : 16 %

Est.chg	2016e	2017e
EPS	21.2%	6.4%

Outstanding Q3 results, adj. EBITDA more than quintupled yoy

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Capital

EVT GY EVTG.DE	
Market Cap (EURm)	683
Enterprise value (EURm)	722
Extrema 12 months	2.90 - 5.25
Free Float (%)	ns

Performance (%)	1m	3m	12m
Absolute	3.2	25.4	27.7
Perf. rel. Country Index	3.2	27.2	41.3
Perf. rel. Health Care	3.2	25.4	27.7

P&L	12/16e	12/17e	12/18e
Sales (EURm)	163	174	182
EBITDA (EURm)	30.5	29.6	32.8
Current EBIT (EURm)	18.8	17.3	19.8
Attr. net profit (EURm)	12.8	10.5	12.8
Adjusted EPS (EUR)	0.10	0.08	0.10
Dividend (EUR)	0.00	0.00	0.00
P/E (x)	53.3	65.2	53.5
P/B (x)	3.4	3.3	3.1
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	1.4	1.8	2.3
EV/Sales (x)	4.43	4.09	3.84
EV/EBITDA (x)	23.7	24.1	21.3
EV/Current EBIT (x)	38.4	41.3	35.4
Gearing (%)	-13	-17	-22
Net Debt/EBITDA(x)	ns	ns	ns

Next Events

28.03.2017 FY Results

Q3 results: Top line up 37% yoy, EBITDA increases more than fivefold

Evotec posted outstanding Q3 results today (10 Nov). Revenue was up 37% yoy to € 45m (Oddo Seydler est.: + 22% yoy to € 40.5m), driven primarily by milestone payments as well as a strong performance in base business, and Sanofi's contribution. As milestone payments entail no costs, their significant contribution to revenue, along with increased capacity utilisation, strongly boosted the gross margin. Adj. EBITDA came in at € 14.8m (margin: 33%) and was considerably above our estimate (€ 9.7m; 27% margin). Adj. more than quintupled vs the Q3 2015 level. Net income came in at € 8.7m vs a loss of € -2.9m Q3 2015.

Evotec also announced today a novel strategic partnership, LAB282, between Oxford University, Oxford University Innovation, Oxford Sciences Innovation/OSI (which will provide funding of £ 13m/€ 14+m) and Evotec to select and accelerate early-stage projects coming out of Oxford University. Evotec will exclusively contribute its drug discovery expertise and platforms to select projects and develop them further. Evotec will be entitled to equity in new LAB282 spin-out companies together with Oxford University and its academic researchers. Together with OSI Evotec will also have the right to co-invest in seed financing rounds.

9M 16 results already exceed full-year 2016 guidance ; strong initial outlook for 2017, but long-term prospects are more important

Evotec confirmed its full-year 2016 outlook to more than double adj. EBITDA. At € 30.6m 9M 16 adj. EBITDA is already 1/ above 2016 consensus (Bloomberg: € 24.4m), which suggests consensus will increase; and 2/ above Evotec's own target (double the 2015 level of € 8.7m). Furthermore, the consensus estimate of c.€ 27m for 2017e is too low in our view (Oddo Seydler est.: c.€ 30m). The low consensus for 2017e may reflect conservative assumptions regarding milestone payments; but given Evotec's expanded partnership base, we do not expect the contribution from the milestone payments to decline. Management also stressed that its initial outlook for 2017 is strong. Another lever for margin improvement is GBP weakness post Brexit, as Evotec has a high cost base in the UK. In our view, only part of the full positive effect of a soft GBP will show up in 2016, as it was hedged. The positive impact should be more pronounced in 2017e.

While Evotec's expanded customer base clearly improves its short term prospects, several new, high-quality collaborations will further improve the long-term value of Evotec, which is more crucial, in our view. We also think that strategic partnerships such as LAB282 significantly contribute to the long-term value of Evotec and could be a blueprint for further such collaborations in the future.

Lifting our TP to € 6.10 on increased estimates; Buy rating confirmed

Having raised our full-year 2016e estimates, we now expect adj. EBITDA of € 30.5m (€ 29m), which is not aggressive in our view. Given management's confident tone regarding 2017, we have also raised our estimates for 2017e. According to our updated SOTP-valuation, the current share price of c.€ 5.25 largely reflects the value of i/ the Execute business (i.e., carrying out services for partners); we calculate this business's NPV at € 551m or € 4.15/share; and ii/ net cash of c.€ 120m or € 0.90/share (total: € 4.95). This implies that EVT Innovate, a key value driver which represents substantial long-term potential for the company – is not being priced in at all by the market. We currently estimate the NPV of the Innovate business at € 150m or € 1.1/share, which is conservative in our view. Based on our updated SOTP-valuation, we lift our TP to € 6.10 and reiterate our Buy recommendation.

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EVTG.DE | EVT GY
Biotechnology | Germany

Buy

Upside

16.21%

Price 5.25EUR

TP 6.10EUR

PER SHARE DATA (EUR)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Adjusted EPS	0.05	0.03	-0.22	-0.10	0.13	0.10	0.08	0.10
Reported EPS	0.05	0.03	-0.22	-0.10	0.13	0.10	0.08	0.10
Growth in EPS(%)	ns	-48.3%	ns	ns	ns	-22.5%	-18.2%	21.9%
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	0.12
Book value per share	1.24	1.29	1.22	1.22	1.43	1.52	1.60	1.70
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	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
12m highest price	3.40	3.04	4.84	4.51	4.28	5.25		
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	5.25	5.25	5.25
Capitalization	312	304	390	467	497	683	683	683
Restated Net debt	-44.5	-45.1	-77.3	-64.8	-109.4	-26.1	-35.4	-47.9
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	722	712	700
P/E (x)	49.1	92.4	ns	ns	30.1	53.3	65.2	53.5
P/CF (x)	23.7	34.4	41.1	87.8	34.4	29.1	30.0	26.5
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%	1.4%	1.8%	2.3%
P/B incl. GW (x)	2.12	1.99	2.45	2.95	2.68	3.45	3.27	3.09
P/B excl. GW (x)	2.97	2.75	3.28	4.11	3.55	4.48	4.19	3.89
EV/Sales (x)	3.86	3.50	4.13	4.86	3.54	4.43	4.09	3.84
EV/EBITDA (x)	25.8	29.9	34.1	56.4	52.0	23.7	24.1	21.3
EV/EBIT (x)	53.6	218	289	ns	ns	38.4	41.3	35.4
(*) historical average price								
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	163	174	182
EBITDA	12.0	10.2	10.4	7.7	8.7	30.5	29.6	32.8
Depreciations	-6.2	-8.8	-9.2	-8.5	-11.9	-11.7	-12.3	-13.0
Current EBIT	5.8	1.4	1.2	-0.8	-3.3	18.8	17.3	19.8
Published EBIT	4.8	-2.4	-24.4	-12.1	11.6	18.8	17.3	19.8
Net financial income	0.0	-1.8	-2.3	1.2	0.9	-1.7	-2.0	-1.2
Corporate Tax	1.4	7.5	-1.8	-1.8	4.0	-5.3	-4.7	-5.8
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	1.0	0.0	0.0
Attributable net profit	6.3	3.3	-28.5	-12.6	16.5	12.8	10.5	12.8
Adjusted attributable net profit	6.3	3.3	-28.5	-12.6	16.5	12.8	10.5	12.8
BALANCE SHEET (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
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	26.5	27.2	28.0
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	25.4	26.4	27.3
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	198	209	221
Minority interests	0.0	0.0	0.0	0.0	1.6	0.6	0.6	0.6
Shareholders equity	147	153	159	158	187	199	209	222
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	-26.1	-35.4	-47.9
CASH FLOW STATEMENT (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
EBITDA	12.0	10.2	10.4	7.7	8.7	30.5	29.6	32.8
Change in WCR	-3.4	3.9	-5.8	-14.8	3.2	-4.3	-1.0	-0.9
Interests & taxes	-1.2	-0.9	-0.6	0.8	-1.4	-7.2	-6.8	-7.0
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	19.0	21.8	24.9
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	9.3	12.3	15.6
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	14.3	19.3	24.5
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%	27.5%	7.0%	4.6%
Lfl sales growth	-	-	-	-	-	-	-	-
Current EBIT growth	ns	-75.7%	-12.3%	ns	ns	ns	-8.2%	14.6%
Growth in EPS(%)	ns	-48.3%	ns	ns	ns	-22.5%	-18.2%	21.9%
Net margin	7.9%	3.8%	-33.1%	-14.1%	12.9%	7.9%	6.0%	7.0%
EBITDA margin	14.9%	11.7%	12.1%	8.6%	6.8%	18.7%	17.0%	18.0%
Current EBIT margin	7.2%	1.6%	1.4%	-0.9%	-2.5%	11.6%	9.9%	10.9%
CAPEX / Sales	-10.2%	-9.4%	-6.0%	-5.9%	-8.7%	-5.9%	-5.5%	-5.1%
WCR / Sales	7.7%	20.1%	21.0%	28.5%	16.5%	15.6%	15.2%	15.0%
Tax Rate	-25.8%	ns	ns	-78.8%	-20.4%	30.8%	31.2%	31.2%
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%	6.7%	5.1%	5.9%
DEBT RATIOS	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Gearing	-30%	-30%	-49%	-41%	-58%	-13%	-17%	-22%
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	50.8	121.6	134.9

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).

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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
10.11.16	Buy	6.10	5.25	Igor Kim,CFA
29.09.16	Buy	5.60	5.03	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

Recommendation split

		Buy	Neutral	Reduce
Our whole coverage	(414)	49%	40%	11%
Liquidity providers coverage	(147)	53%	41%	5%
Research service coverage	(66)	65%	32%	3%
Investment banking services	(33)	70%	27%	3%

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