



# Evotec AG

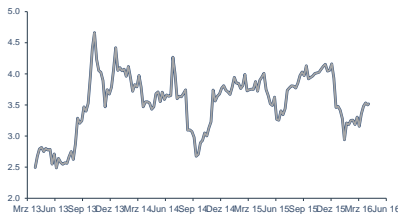
Buy → | Target price : 4.60 EUR

Price : 3.52 EUR | Upside : 31 %

| Est.chng | 2016e | 2017e |
|----------|-------|-------|
| EPS      | 0.7%  | 0.2%  |

## Q1 16 preview: we expect a solid quarter, just the start of a strong year

Tuesday 03 May 2016



### Capital

| EVT GY   EVTG.DE        |             |
|-------------------------|-------------|
| Market Cap (EURm)       | 458         |
| Enterprise value (EURm) | 500         |
| Extrema 12 months       | 2.90 - 4.28 |
| Free Float (%)          | ns          |

| Performance (%)          | 1m   | 3m   | 12m  |
|--------------------------|------|------|------|
| Absolute                 | 11.4 | 0.3  | -5.5 |
| Perf. rel. Country Index | 8.8  | -1.7 | 9.6  |
| Perf. rel. Health Care   | 11.4 | 0.3  | -5.5 |

| P&L                     | 12/16e | 12/17e | 12/18e |
|-------------------------|--------|--------|--------|
| Sales (EURm)            | 150    | 161    | 170    |
| EBITDA (EURm)           | 16.6   | 18.4   | 21.8   |
| Adj. EBIT (EURm)        | 4.2    | 6.1    | 8.8    |
| Attr. net profit (EURm) | 4.3    | 4.6    | 6.8    |
| Adjusted EPS (EUR)      | 0.03   | 0.04   | 0.05   |
| Dividend (EUR)          | 0.00   | 0.00   | 0.00   |
| P/E (x)                 | 107.4  | 99.2   | 67.5   |
| P/B (x)                 | 2.4    | 2.4    | 2.3    |
| Dividend Yield (%)      | 0.0    | 0.0    | 0.0    |
| FCF yield (%)           | 1.1    | 1.4    | 2.0    |
| EV/Sales (x)            | 3.35   | 3.10   | 2.88   |
| EV/EBITDA (x)           | 30.1   | 27.0   | 22.6   |
| EV/Current EBIT (x)     | 119.0  | 81.0   | 55.7   |
| Gearing (%)             | -11    | -13    | -15    |
| Net Debt/EBITDA(x)      | ns     | ns     | ns     |

### Next Events

|            |            |
|------------|------------|
| 10.05.2016 | Q1 Results |
|------------|------------|

### Q1 16 preview: Revenue +70%; adj. EBITDA € 4m (PY: € -0.3m)

Evotec is due to post its Q1 16 results on 10 May. We expect a very strong start into 2016 driven by: 1) solid growth in the base business, given a strong order book going into 2016; 2) the positive contribution from the Sanofi deal; and 3) a milestone payment from Padlock in Q1 16. (Note that milestone payments are normally back-end loaded). In view of the above, we estimate Q1 16 group revenue growth of c.70% yoy to € 36.6m (Q1 15: € 21.5m). On the basis of a strong Q1 16 the company's full-year 2016 guidance for revenue growth of >15% (excl. milestones, upfronts and licences) should be easily achievable.

We also expect a swing to profitability (EBIT, adj. EBITDA) in Q1 16 driven by 1) overall top-line growth, 2) the milestone payment (which entails no costs); and 3) a lower cost base due to the weaker GBP (Evotec's cost base is mainly in UK). We project Evotec to post a strong adj. EBITDA of € 4.0m (Q1 15: € -0.3m) equating to a margin of 10.9%. This would already represent almost half the company's 2015 EBITDA (c.€ 8.7m.). Overall, Evotec expects a significant improvement in adj. EBITDA in 2016 vs 2015.

### Q1 16 preview

| € m                | Q1 2016e | Q1 2015 | yoy |
|--------------------|----------|---------|-----|
| Revenue            | 36.6     | 21.5    | 70% |
| Adj. EBITDA        | 4.0      | -0.3    | -   |
| Adj. EBITDA margin | 10.9%    | -       | -   |
| EBIT               | 0.9      | -3.3    | -   |

Source : Oddo Seydler; Evotec

### Share price still ignores pipeline / No hurdles to share price recovery

We remain convinced that Evotec is undervalued, as the share price appears to reflect only the Execute business (services for partners: Oddo est. NPV: € 368m or € 2.83/share) and net cash (c.€ 110m or € 0.85/share), but ignores the company's Innovate business with >70 proprietary products in the pipeline (Oddo est. NPV: € 133m or € 1.02/share).

We believe the shares' ytd decline has been driven not only by the general market sell-off in January and February, but also by the fact that BVF reduced its stake in Evotec from c.15% at YE 2015 to now less than 3% (according to Bloomberg). With BVF now having sold most of its stake, one of the main factors holding back the share price has been removed. We now see no hurdles to share price recovery. In addition, we would not rule out further spin-offs similar to Topas Therapeutics. Such spin-offs would also be positive near-term triggers.

### Buy recommendation and TP € 4.60 unchanged

Our SOTP valuation indicates a fair value of € 4.70/share. As such we leave our TP at € 4.60 and reiterate our Buy recommendation.

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**EVTG.DE | EVT GY**  
**Biotechnology | Germany**

**Buy**  
Upside 30.79%  
**Price** 3.52EUR  
TP 4.60EUR

|  | 12/11        | 12/12        | 12/13        | 12/14        | 12/15         | 12/16e       | 12/17e       | 12/18e       |
|--|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|
| <b>PER SHARE DATA (EUR)</b>                        |              |              |              |              |               |              |              |              |
| Adjusted EPS                                       | 0.05         | 0.03         | -0.22        | -0.10        | 0.13          | 0.03         | 0.04         | 0.05         |
| <b>Reported EPS</b>                                | <b>0.05</b>  | <b>0.03</b>  | <b>-0.22</b> | <b>-0.10</b> | <b>0.13</b>   | <b>0.03</b>  | <b>0.04</b>  | <b>0.05</b>  |
| Growth in EPS(%)                                   | ns           | -48.3%       | ns           | ns           | ns            | -74.2%       | 8.2%         | 46.8%        |
| 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          | 0.04         | 0.05         | 0.07         |
| Book value per share                               | 1.24         | 1.29         | 1.22         | 1.22         | 1.43          | 1.46         | 1.49         | 1.55         |
| 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       |
| <b>VALUATION</b>                                   |              |              |              |              |               |              |              |              |
| 12m highest price                                  | 3.40         | 3.04         | 4.84         | 4.51         | 4.28          | 4.12         |              |              |
| 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          | 3.52         | 3.52         | 3.52         |
| Capitalization                                     | 312          | 304          | 390          | 467          | 497           | 458          | 458          | 458          |
| Restated Net debt                                  | -44.5        | -45.1        | -77.3        | -64.8        | -109.4        | -21.9        | -25.1        | -31.4        |
| 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           | 47           | 43           | 32           | 65            | 65           | 65           | 65           |
| <b>Enterprise Value</b>                            | <b>309</b>   | <b>306</b>   | <b>355</b>   | <b>435</b>   | <b>452</b>    | <b>500</b>   | <b>497</b>   | <b>491</b>   |
| P/E (x)  | 49           | 92           | ns           | ns           | 30            | 107          | 99           | 68           |
| P/CF (x)   | 24           | 34           | 41           | 88           | 34            | 27           | 27           | 23           |
| 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%          | 1.1%         | 1.4%         | 2.0%         |
| P/B incl. GW (x)                                   | 2.12         | 1.99         | 2.45         | 2.95         | 2.68          | 2.41         | 2.35         | 2.28         |
| P/B excl. GW (x)                                   | 2.97         | 2.75         | 3.28         | 4.11         | 3.55          | 3.18         | 3.08         | 2.94         |
| EV/Sales (x)                                       | 3.86         | 3.50         | 4.13         | 4.86         | 3.54          | 3.35         | 3.10         | 2.88         |
| EV/EBITDA (x)                                      | 26           | 30           | 34           | 56           | 52            | 30           | 27           | 23           |
| <b>EV/EBIT (x)</b>                                 | <b>54</b>    | <b>218</b>   | <b>289</b>   | <b>ns</b>    | <b>ns</b>     | <b>119</b>   | <b>81</b>    | <b>56</b>    |
| (*) historical average price                       |              |              |              |              |               |              |              |              |
| <b>PROFIT AND LOSS (EURm)</b>                      |              |              |              |              |               |              |              |              |
| Sales  | 80           | 87           | 86           | 89           | 128           | 150          | 161          | 170          |
| EBITDA   | 12.0         | 10.2         | 10.4         | 7.7          | 8.7           | 16.6         | 18.4         | 21.8         |
| Depreciations                                      | -6.2         | -8.8         | -9.2         | -8.5         | -11.9         | -12.4        | -12.3        | -13.0        |
| <b>Adj. EBIT</b>                                   | <b>5.8</b>   | <b>1.4</b>   | <b>1.2</b>   | <b>-0.8</b>  | <b>-3.3</b>   | <b>4.2</b>   | <b>6.1</b>   | <b>8.8</b>   |
| Published EBIT                                     | 4.8          | -2.4         | -24.4        | -12.1        | 11.6          | 4.2          | 6.1          | 8.8          |
| Net financial income                               | 0.0          | -1.8         | -2.3         | 1.2          | 0.9           | 1.1          | -0.4         | -0.4         |
| Corporate Tax                                      | 1.4          | 7.5          | -1.8         | -1.8         | 4.0           | -1.0         | -1.1         | -1.6         |
| 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          | 4.3          | 4.6          | 6.8          |
| <b>Adjusted attributable net profit</b>            | <b>6.3</b>   | <b>3.3</b>   | <b>-28.5</b> | <b>-12.6</b> | <b>16.5</b>   | <b>4.3</b>   | <b>4.6</b>   | <b>6.8</b>   |
| <b>BALANCE SHEET (EURm)</b>                        |              |              |              |              |               |              |              |              |
| Goodwill   | 42           | 42           | 40           | 45           | 46            | 46           | 46           | 46           |
| Other intangible assets                            | 68           | 63           | 40           | 30           | 25            | 26           | 26           | 27           |
| Tangible fixed assets                              | 25           | 27           | 24           | 24           | 38            | 38           | 38           | 36           |
| WCR  | 6.2          | 18           | 18           | 26           | 21            | 23           | 24           | 25           |
| Financial assets                                   | 3.9          | 4.4          | 2.1          | 1.2          | 12            | 12           | 12           | 12           |
| Ordinary shareholders equity                       | 147          | 153          | 159          | 158          | 186           | 190          | 194          | 201          |
| 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           | 191          | 196          | 203          |
| Non-current provisions                             | 42           | 47           | 43           | 32           | 65            | 65           | 65           | 65           |
| <b>Net debt</b>                                    | <b>-44.5</b> | <b>-45.1</b> | <b>-77.3</b> | <b>-64.8</b> | <b>-109.4</b> | <b>-21.9</b> | <b>-25.1</b> | <b>-31.4</b> |
| <b>CASH FLOW STATEMENT (EURm)</b>                  |              |              |              |              |               |              |              |              |
| <b>EBITDA</b>                                      | <b>12.0</b>  | <b>10.2</b>  | <b>10.4</b>  | <b>7.7</b>   | <b>8.7</b>    | <b>16.6</b>  | <b>18.4</b>  | <b>21.8</b>  |
| Change in WCR                                      | -3.4         | 3.9          | -5.8         | -14.8        | 3.2           | -2.1         | -1.2         | -1.1         |
| Interests & taxes                                  | -1.2         | -0.9         | -0.6         | 0.8          | -1.4          | 0.1          | -1.5         | -2.0         |
| 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          | 14.5         | 15.7         | 18.7         |
| CAPEX  | -7.6         | -8.1         | -4.6         | -5.3         | -11.2         | -9.7         | -9.5         | -9.3         |
| <b>Free cash-flow</b>                              | <b>2.2</b>   | <b>4.6</b>   | <b>-0.9</b>  | <b>-14.8</b> | <b>6.5</b>    | <b>4.9</b>   | <b>6.2</b>   | <b>9.4</b>   |
| 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           | 9.9          | 13.2         | 18.3         |
| <b>GROWTH MARGINS PRODUCTIVITY</b>                 |              |              |              |              |               |              |              |              |
| Sales growth                                       | 45.0%        | 8.9%         | -1.5%        | 4.1%         | 42.7%         | 17.2%        | 7.4%         | 6.0%         |
| <b>Lfl sales growth</b>                            |              |              |              |              |               |              |              |              |
| Current EBIT growth                                | ns           | -75.7%       | -12.3%       | ns           | ns            | ns           | 46.0%        | 43.5%        |
| Growth in EPS(%)                                   | ns           | -48.3%       | ns           | ns           | ns            | -74.2%       | 8.2%         | 46.8%        |
| Net margin   | 7.9%         | 3.8%         | -33.1%       | -14.1%       | 12.9%         | 2.8%         | 2.9%         | 4.0%         |
| <b>EBITDA margin</b>                               | <b>14.9%</b> | <b>11.7%</b> | <b>12.1%</b> | <b>8.6%</b>  | <b>6.8%</b>   | <b>11.1%</b> | <b>11.5%</b> | <b>12.8%</b> |
| <b>Current EBIT margin</b>                         | <b>7.2%</b>  | <b>1.6%</b>  | <b>1.4%</b>  | <b>-0.9%</b> | <b>-2.5%</b>  | <b>2.8%</b>  | <b>3.8%</b>  | <b>5.2%</b>  |
| CAPEX / Sales                                      | -10.2%       | -9.4%        | -6.0%        | -5.9%        | -8.7%         | -6.5%        | -5.9%        | -5.5%        |
| WCR / Sales  | 7.7%         | 20.1%        | 21.0%        | 28.5%        | 16.5%         | 15.5%        | 15.2%        | 14.9%        |
| Tax Rate   | -25.8%       | ns           | ns           | -78.8%       | -20.4%        | 19.0%        | 19.0%        | 19.0%        |
| Normative tax rate                                 |              |              |              |              |               |              |              |              |
| Asset Turnover                                     | 0.6          | 0.6          | 0.6          | 0.7          | 1.0           | 1.1          | 1.2          | 1.3          |
| <b>ROCE post-tax (normative tax rate)</b>          |              |              |              |              |               |              |              |              |
| ROCE post-tax hors GW (normative tax rate)         | -            | -            | -            | -            | -             | -            | -            | -            |
| ROE  | 4.5%         | 2.2%         | -18.3%       | -8.0%        | 9.6%          | 2.3%         | 2.4%         | 3.4%         |
| <b>DEBT RATIOS</b>                                 |              |              |              |              |               |              |              |              |
| Gearing  | -30%         | -30%         | -49%         | -41%         | -58%          | -11%         | -13%         | -15%         |
| Net Debt / Market Cap                              | -0.14        | -0.15        | -0.20        | -0.14        | -0.22         | -0.05        | -0.05        | -0.07        |
| <b>Net debt / EBITDA</b>                           | <b>ns</b>    | <b>ns</b>    | <b>ns</b>    | <b>ns</b>    | <b>ns</b>     | <b>ns</b>    | <b>ns</b>    | <b>ns</b>    |
| EBITDA / net financial charges                     | 8.3          | 8.5          | 6.5          | 6.7          | 7.3           | 37.5         | 41.5         | 49.1         |

**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) |
|----------|------|--------------------|-------------|
| 29.01.16 | Buy  | 4.60               | 3.42        |
| 12.08.15 | Buy  | 4.10               | 3.74        |
| 10.08.15 | Buy  | 4.00               | 3.85        |
| 07.08.15 | Buy  | 3.90               | 3.74        |

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