

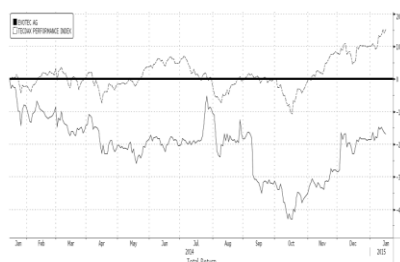
Evotec AG

BUY (BUY) | Target EUR 4.60 (EUR 4.60)

Price (last closing price) : EUR 3.75 | Upside : 22.7 %

E.st. change EPS	2015e	2016e
	-	-

Milestones from collaboration with Janssen

Friday, 16 January 2015


Capital

EVT GY EVT.G.DE	
Market Cap (EURm)	493.5
Enterprise value (EURm)	409
Extrema 12 months	4.6 - 2.4
Free Float (%)	86.2%

Performance (%)	1m	3m	12m
Absolute	7.9	45.6	-16.9
Perf. rel. "sector"	-2.4	25.2	-33.0
Perf. rel. TecDAX	-2.0	13.5	-27.9

P & L	12/14e	12/15e	12/16e
Sales (EURm)	93	105	117
EBITDA (EURm)	2	11	13
EBIT (EURm)	-7	3	5
Attr. net profit (EURm)	-7	1	3
EPS (EUR)	-0.06	0.01	0.02
Dividend (EUR)	0.00	0.00	0.00

P/E (x)	ns	ns	ns
P/B (x)	3.2	3.2	3.1
Dividend Yield (%)	-	-	-
FCF yield (%)	0.5	1.8	2.3
EV/Sales (x)	4.4	3.9	3.5
EV/EBITDA (x)	ns	ns	ns
EV/ EBIT (x)	ns	ns	ns
Gearing (%)	ns	ns	ns
Net Debt/EBITDA(x)	ns	ns	ns

Next Events

FY 14 results	24-Mar-15
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Two milestones in TargetAD collaboration with Janssen

Evotec (EVT) achieved two milestones in its TargetAD collaboration with Janssen Pharmaceuticals (Janssen) for the identification and selection of novel targets from Evotec's TargetAD database and for the transition of targets into the drug discovery process. The milestones will be recognised in FY14.

Evotec has not disclosed the size of payments. We believe that the payments are rather small given the stage of development. We therefore leave our FY14 estimates unchanged. More important that within this alliance already three milestones have been achieved (the first milestone in July 2014) since the inception of collaboration, which in our view, indicates the productivity of this alliance.

Positive newsflow restores confidence in EVT

After disappointing termination of DiaPep277 program (in Sept. 2014), a number of encouraging news have significantly restored the confidence for EVT:

1. Major deal with Sanofi to be signed in 1H15 (with EUR 250m guaranteed commitment over five years + upfront payment);
2. EUR 8m milestones from Bayer and Janssen;
3. Extension of long-term collaboration with Padlock Therapeutics (EUR 13m research payments and milestone potential);
4. Research collaboration with The Ohio State University to progress a novel mechanism for engaging the KRas target using Evotec's technology platform and expertise.

BUY recommendation; PT EUR 4.60

In our view, the booming biotech industry, coupled with the growing need for cost optimization and enhancing R&D productivity will prompt pharma and biotechnology companies to increasingly outsource the drug discovery process. Considering Evotec's standing as high-quality provider within the drug discovery domain, we believe that EVT has better chances to ride these trends, compared to other drug discovery CRO providers. Our SOP-valuation yields EUR 4.56/share. We leave our PT at EUR 4.60 unchanged and confirm BUY recommendation.

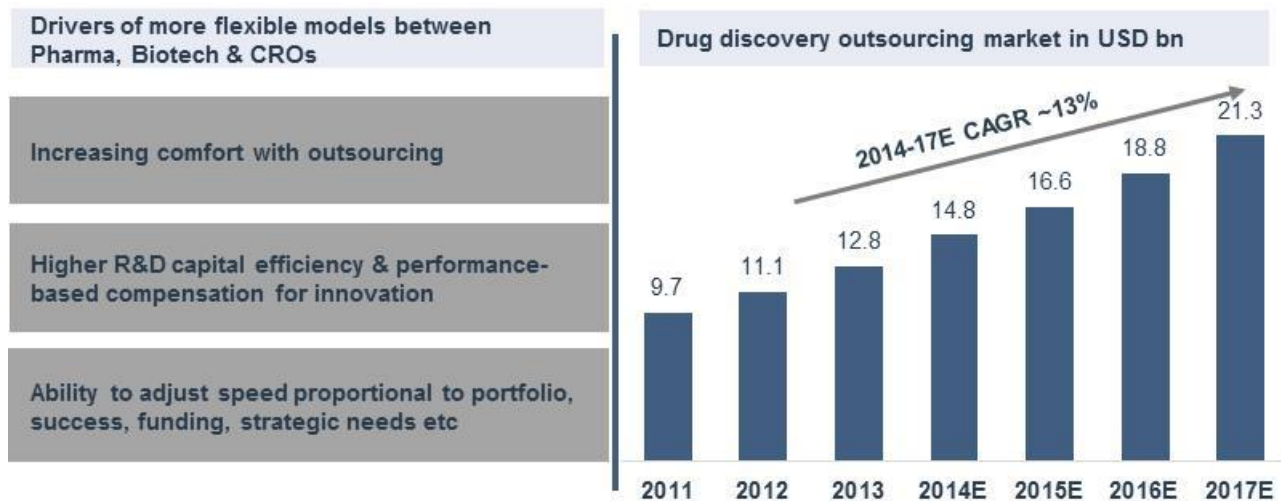
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SOP Valuation

	Status	Indication	Valuation approach	NPV in EUR m	NPV in EUR/share	NPV contribution
Alliance with Sanofi	to be signed in 1H15	-	DCF	93.8	0.72	16%
Discovery alliance business (excl. Alliance with Sanofi)	-	-	DCF	230.2	1.77	39%
EVT 302 (Roche)	Phase IIb	Alzheimer Disease	rNPV	148.5	1.14	25%
EVT 201 (Jingxin)	Phase IIb planned to start in 2H/14	Insomnia	rNPV	30.4	0.23	5%
Net cash	-	-		90.3	0.69	15%
Total value				499.5	4.56	100%

Source: Oddo Seydler Bank AG

Outsourcing to improve R&D productivity – Market dynamics in drug discovery outsourcing



Source: Visiongain; Drug Discovery Outsourcing: World Market 2012; Company Data

Partnership portfolio

Molecule	Indication	Partner	Discovery	Pre-clinical	Phase I	Phase II	Phase III	Market
Clinical								
EVT302	Alzheimer's disease	Roche						
EVT201	Insomnia	JingXin						
Somatoprim	Acromegaly	Aspireo						
EVT103	TRD	Janssen						
EVT401	Inflammation	CONBA						
ND	Oncology	Boehringer Ingelheim						
ND	Oncology	Roche						
Pre-clinical								
ND	Pain	Novartis						
ND	Oncology	Boehringer Ingelheim						
Various	Endometriosis	Bayer						
EVT770	Diabetes type 2/1	MedImmune/AstraZeneca						
ND	Pain	Boehringer Ingelheim						
Discovery								
Various	Inflammation	UCB						
EVT070	Diabetes type 2	Boehringer Ingelheim						
Various	Diabetes type 2/1	MedImmune/AstraZeneca						
Various	Diabetes type 2/1	Harvard						
Various	Kidney disease	AstraZeneca						
Various	Alzheimer's disease	J&J Innovation						
Various	CNS/MS	NEU2/ Bionamics						

Source: Company Data

Profit and loss account

IFRS EUR m	2009	2010	2011	2012	2013	2014E	2015E	2016E
Total revenues	42.7	55.3	80.1	87.3	85.9	93.0	104.8	117.4
YoY growth	-99.9%	29.5%	45.0%	8.9%	-1.5%	8.3%	12.7%	12.0%
Cost of revenue	-24.3	-30.9	-45.1	-56.2	-54.7	-58.0	-65.1	-71.7
as % of sales	-56.8%	-55.9%	-56.3%	-64.4%	-63.7%	-62.4%	-62.1%	-61.0%
Gross profit	18.4	24.3	35.0	31.0	31.2	35.0	39.8	45.8
as % of sales	43.2%	44.1%	43.7%	35.6%	36.3%	37.6%	37.9%	39.0%
R&D expenses	-20.9	-6.1	-8.4	-8.3	-9.7	-12.5	-14.1	-15.8
as % of sales	-49.1%	-11.1%	-10.5%	-9.6%	-11.2%	-13.4%	-13.4%	-13.4%
SG&A expenses	-16.7	-16.0	-15.8	-16.3	-16.6	-18.0	-20.2	-22.7
as % of sales	-39.1%	-28.9%	-19.7%	-18.7%	-19.3%	-19.3%	-19.3%	-19.3%
Non-operating expenses	-23.1	-0.6	-5.6	-9.6	-26.3	-11.4	-2.6	-2.4
as % of sales	-54.1%	-1.0%	-7.0%	-11.0%	-30.6%	-12.3%	-2.5%	-2.1%
EBITDA	-38.2	6.5	11.4	5.6	-12.2	1.8	11.4	13.3
as % of sales	-89.6%	11.7%	14.2%	6.4%	-14.2%	1.9%	10.8%	11.3%
EBITDA adj.	n.a.	n.a.	n.a.	9.4	12.9	10.5	11.4	13.3
as % of sales	n.a.	n.a.	n.a.	10.8%	15.0%	11.2%	10.8%	11.3%
Operating result	-42.3	1.7	5.2	-3.2	-21.4	-6.9	2.8	4.9
as % of sales	-99.1%	3.1%	6.5%	-3.7%	-24.8%	-7.4%	2.7%	4.1%
Operating result adj.	-24.5	1.7	5.8	1.4	1.2	1.8	2.8	-25.5
as % of sales	-57.3%	3.1%	7.2%	1.6%	1.4%	1.9%	2.7%	-21.7%
Net financial results	-2.5	2.2	0.0	-1.8	-2.3	-1.3	-1.3	-1.3
EBT	-44.8	3.9	5.3	-5.0	-23.6	-8.2	1.6	3.6
as % of sales	-105.0%	7.0%	6.6%	-5.7%	-27.5%	-8.8%	1.5%	3.1%
Income taxes	-0.7	-0.9	1.4	7.5	-1.8	0.8	-0.2	-0.4
as % of sales	1.5%	-22.8%	26.5%	-149.4%	7.5%	-10.0%	-10.0%	-10.0%
Net income/loss	-45	3	7	2	-25	-7	1	3
as % of sales	-106.6%	5.4%	8.3%	2.8%	-29.6%	-7.9%	1.4%	2.8%
Shares outstanding (in tsd.)	106.8	109.0	116.0	117.3	121.2	130.1	130.1	130.1
Basic EPS (EUR)	-0.4	0.0	0.1	0.0	-0.2	-0.1	0.0	0.0

Source: Company Data, Oddo Seydler Bank AG

Balance Sheets

IFRS EUR m	2009	2010	2011	2012	2013	2014E	2015E	2016E
Assets								
Noncurrent assets	77.6	105.2	137.3	135.7	104.3	101.8	99.6	97.3
as % of total equity and liabilities	53.0%	54.8%	63.3%	60.6%	46.1%	46.3%	44.9%	42.9%
Property, plant and equipment	19.2	18.5	24.9	27.2	24.2	24.0	24.4	24.5
Total intangible assets	45.6	83.6	109.9	105.6	80.0	77.2	74.7	72.2
Other assets	12.9	3.1	2.5	2.9	0.1	0.6	0.6	0.6
Current assets	69.0	86.7	79.7	88.3	121.8	118.0	122.5	129.7
as % of total equity and liabilities	47.0%	45.2%	36.7%	39.4%	53.9%	53.7%	55.1%	57.1%
Cash and cash equivalents	32.9	21.1	17.8	39.1	45.6	42.6	44.9	49.8
Investments	25.4	46.3	44.7	25.1	50.5	50.5	50.5	50.5
Other assets	10.6	19.3	17.3	24.1	25.7	24.9	27.1	29.3
Total assets	146.6	191.8	217.0	224.0	226.1	219.8	222.1	227.0

Shareholders' equity and liabilities

Shareholders' equity	111.5	132.6	147.2	152.5	159.0	152.3	153.7	157.0
as % of total equity and liabilities	76.0%	69.1%	67.9%	68.1%	70.3%	69.3%	69.2%	69.1%
Current liabilities	26.4	32.8	42.8	33.9	39.0	39.3	40.2	41.8
as % of total equity and liabilities	18.0%	17.1%	19.7%	15.1%	17.2%	17.9%	18.1%	18.4%
Noncurrent liabilities	8.7	26.4	26.9	37.6	28.2	28.2	28.2	28.2
as % of total equity and liabilities	5.9%	13.8%	12.4%	16.8%	12.5%	12.8%	12.7%	12.4%
Total equity and liabilities	146.6	191.9	217.0	224.0	226.1	219.8	222.1	227.0

Source: Company Data; Oddo Seydler Bank AG

Cash flow statement

IFRS EUR m	2009	2010	2011	2012	2013	2014E	2015E	2016E
Net result	-45.5	3.0	6.7	2.5	-25.4	-7.3	1.4	3.2
Adj. For cash reconciliation	26.8	3.0	5.7	7.2	39.2	9.9	9.8	9.7
Changes in assets and liabilities	-1.2	-4.3	-1.7	2.5	-6.7	1.3	-1.3	-0.7
Interest paid/received	0.0	-0.3	0.0	0.1	-0.2	-1.3	-1.3	-1.3
Taxes	-1.9	-0.6	-0.5	-0.3	-0.2	0.0	0.0	0.0
Net cash used in operating activities	-21.9	0.9	10.1	12.0	6.7	2.7	8.6	11.1
Net cash provided by investing activities	-2.1	-9.9	-15.1	5.8	-31.5	-5.7	-6.3	-6.2
Net cash provided by financing activities	1.5	-3.4	2.1	2.6	31.9	0.0	0.0	0.0
Change in cash	-22.4	-12.3	-2.8	20.3	7.1	-3.0	2.3	4.9
Exchange rate difference	0.3	0.5	-0.5	1.0	-0.5	0.0	0.0	0.0
Cash at the beginning of the year	55.1	32.9	21.1	17.8	39.1	45.6	42.6	44.9
Cash and cash equivalents at year's end	32.9	21.1	17.8	39.1	45.6	42.6	44.9	49.8

Source: Company Data; Oddo Seydler Bank AG

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BUY: The expected performance of the share price is above +10%.

HOLD: The expected performance of the share price is between 0% and +10%.

SELL: The expected performance of the share price is below 0%.

This rating system is only a guideline. Therefore, deviations from this system may apply.

Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
16 January 2015	BUY (Company Update)	EUR 3.75	EUR 4.60
18 December 2014	BUY (Company Update)	EUR 3.57	EUR 4.60
03 December 2014	BUY (Company Update)	EUR 3.25	EUR 4.60
12 November 2014	BUY (Company Update)	EUR 3.08	EUR 4.00
22 September 2014	BUY (Company Update)	EUR 3.10	EUR 4.00
09 September 2014	HOLD (Company Update)	EUR 3.69	EUR 4.00

12 August 2014	BUY (Company Update)	EUR 3.58	EUR 4.70
14 May 2014	BUY (Company Update)	EUR 3.64	EUR 4.50
02 April 2014	BUY (Company Update)	EUR 3.88	EUR 4.50
26 March 2014	BUY (Company Update)	EUR 3.83	EUR 4.30

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