

Evotec AG

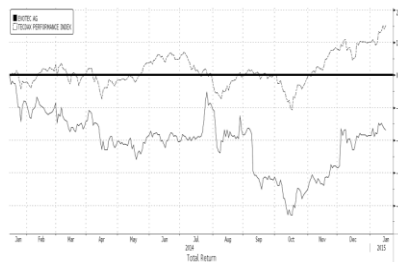
BUY (BUY) | Target EUR 4.60 (EUR 4.60)

Price (last closing price) : EUR 3.90 | Upside : 18.0%

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

Mixed 2014 results, conservative FY15 outlook

Wednesday, 25 March 2015



Capital	
EVT GY EVTG.DE	
Market Cap (EURm)	511.9
Enterprise value (EURm)	434
Extrema 12 months	4.3 - 2.4
Free Float (%)	86.2%

Performance (%)	1m	3m	12m
Absolute	2.6	5.7	1.5
Perf. rel. "sector"	-2.4	-12.2	-25.8
Perf. rel. TecDAX	-0.9	-11.0	-24.0

P & L	12/15e	12/16e	12/17e
Sales (EURm)	109	122	136
EBITDA adj. (EURm)	14	15	17
EBIT (EURm)	8	10	12
Attr. net profit (EURm)	10	11	13
EPS (EUR)	0.08	0.08	0.10
Dividend (EUR)	0.00	0.00	0.00

P/E (x)	ns	ns	ns
P/B (x)	3.0	2.8	2.6
Dividend Yield (%)	-	-	-
FCF yield (%)	10.1	3.3	3.3
EV/Sales (x)	4.0	3.5	3.2
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	
1Q15 results	12. Mai '15

Mixed 2014 results

On the positive side, 2014 revenues rose 4% yoy to EUR 89.5m, while base business (revenues excl. milestones, upfront payments and licenses) rose 7% yoy, from EUR 68.8m to EUR 73.4 m. Liquidity remained high at EUR 88.8m (EUR 93.1m adjusted for M&A).

On the negative side, group gross margin slipped from 36.3% to 32.8% due to 1) decreased milestone payments, 2) the write-off of the Andromeda receivable, and 3) adverse currency movements. Adj. EBITDA fell from EUR 10.4m in 2013 to EUR 7.7m.

Conservative 2015 outlook: >20% revenue growth

For 2015, EVT guided for base business revenues (i.e. excluding milestones, upfronts and licences) to increase >20% yoy. Regarding adj. EBITDA the management expects it to be positive. The company plans to increase R&D expenses to EUR 15-20m and invest up to EUR 10m in additional capacity increases and the technological upgrades. Liquidity is expected to be well in excess of EUR 100m at YE 2015 (assuming no cash outflow from M&A or similar transactions).

Deal with Sanofi to close by end of March

A major multi-component strategic alliance with Sanofi is expected to close on 31 March 2015, making Sanofi EVT's largest partner and providing a lot of points of interaction in EVT's two core segments, EVT Innovate and EVT Execute. In the short and mid-term, Sanofi has committed guaranteed payments to Evotec of EUR 250m (including the >EUR 40m upfront payment), which should drive both growth and profitability at EVT. Joining capacities and capabilities with Sanofi creates significant long-term upside. (Five preclinical oncology candidates alone will provide significant news flow in the future). According to EVT, we may see some oncology asset to progress to IND within 24 months. The alliance with Sanofi also offers some less obvious upside, i.e. it will enable Evotec to boost capacity in both of its core segments with minimal investments and without compromising the quality of its services.

Short term newsflow

According to the company, the key triggers in the EVT Execute segment should be: 1) New long-term deals with pharma and biotech; 2) New integrated technology/disease alliances; 3) Milestones from existing alliances. In the EVT Innovate segment, the Phase 2b data from EVT 302 for Alzheimer's disease (developed in alliance with Roche) should be a particularly important trigger.

BUY recommendation and PT of EUR 4.60 unchanged

In our view, EVT is likely to attain more than 20% yoy revenue growth in 2015e, but we appreciate management's need to be conservative at this juncture as the accounting aspects regarding payment booking still have to be clarified with auditors. We would also mention that while neither the company's outlook nor our estimates incorporate the upfront payment from the Sanofi deal, it should be taken onto EVT's balance sheet soon, adding to its cash position. We therefore have included this payment in our SOP valuation, which now yields a FVpS of EUR 4.72. We leave our PT unchanged at EUR 4.60 and confirm our BUY recommendation.

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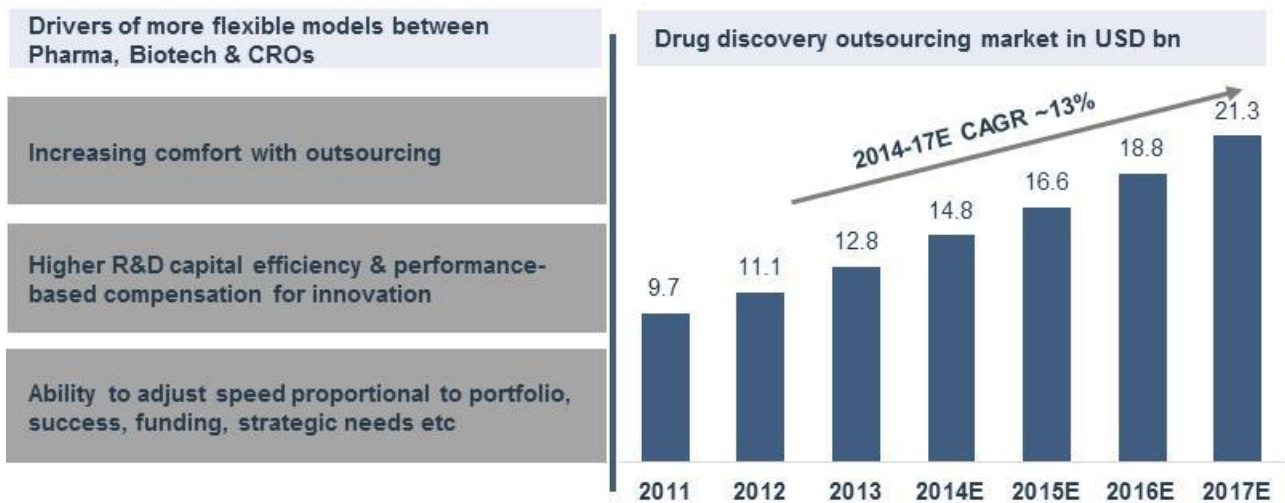
SOP Valuation

	Status	Indication	Valuation approach	NPV in EUR m	NPV in EUR/share	NPV contribution
Discovery alliance business (excl. Alliance with Sanofi)	-	-	DCF	290.4	2.23	47%
EVT 302 (Roche)	Phase IIb	Alzheimer Disease	rNPV	155.5	1.19	25%
EVT 201 (Jingxin)	Phase IIb planned to start in 2H/14	Insomnia	rNPV	32.4	0.25	5%
Net cash*	-	-		135.8	1.04	22%
Total value				614.0	4.72	100%

*estimated for YE2015

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: >70 product candidates

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						
ND	Inflammation	Second Genome						
Various	Oncology	Sanofi						
Discovery								
Various	Inflammation	UCB						
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						
Various	Diabetes	>5 further programs						
Various	Neurology	>5 further programs						
Various	Oncology	>10 further programs						
Various	Pain & Inflammation	>5 further programs						

Source: Company Data

Income statement

	EUR m	2012	2013	2014	2015E	2016E	2017E
Total revenues		87.3	85.9	89.5	109.3	122.4	135.9
YoY growth		8.9%	-1.5%	4.1%	22.1%	12.0%	11.0%
Gross profit		31.0	31.2	29.4	39.9	46.0	52.7
as % of sales		35.6%	36.3%	32.8%	36.5%	37.6%	38.8%
EBITDA adj.		10.2	10.4	7.7	13.6	15.2	17.2
as % of sales		11.7%	12.1%	8.6%	12.5%	12.4%	12.7%
Operating result		-3.2	-21.4	-6.4	8.0	9.6	11.6
as % of sales		-3.7%	-24.8%	-7.1%	7.3%	7.8%	8.6%
EBT		-5.0	-23.6	-5.2	7.7	7.8	9.8
as % of sales		-5.7%	-27.5%	-5.8%	7.1%	6.4%	7.2%
Income taxes		7.5	-1.8	-1.8	2.7	2.7	3.5
as % of sales		-149.4%	7.5%	35.3%	35.3%	35.3%	35.3%
Net income/loss		2.5	-25.4	-7.0	10.4	10.5	13.3
as % of sales		2.8%	-29.6%	-7.8%	9.6%	8.6%	9.8%
Basic EPS (EUR)		0.02	-0.21	-0.05	0.08	0.08	0.10

Source: Company Data, Oddo Seydler Bank AG

Balance sheet

	EUR m	2012	2013	2014	2015E	2016E	2017E
Assets							
Noncurrent assets		135.7	104.3	99.3	97.4	95.5	93.5
as % of total equity and liabilities		60.6%	46.1%	44.2%	35.6%	33.4%	31.1%
Current assets		88.3	121.8	125.3	176.2	190.6	206.9
as % of total equity and liabilities		39.4%	53.9%	55.8%	64.4%	66.6%	68.9%
Total assets		224.0	226.1	224.6	273.6	286.0	300.4

Shareholders' equity and liabilities

Shareholders' equity		152.5	159.0	158.4	169.8	180.3	193.6
as % of total equity and liabilities		68.1%	70.3%	70.5%	62.1%	63.0%	64.4%
Current liabilities		33.9	39.0	33.1	71.7	73.7	74.7
as % of total equity and liabilities		15.1%	17.2%	14.7%	26.2%	25.8%	24.9%
Noncurrent liabilities		37.6	28.2	33.1	32.1	32.1	32.1
as % of total equity and liabilities		16.8%	12.5%	14.8%	11.7%	11.2%	10.7%
Total equity and liabilities		224.0	226.1	224.6	273.6	286.0	300.4

Source: Company Data; Oddo Seydler Bank AG

Cash flow statement

	EUR m	2012	2013	2014	2015E	2016E	2017E
Net result		2.5	-25.4	-7.0	10.4	10.5	13.3
Net cash used in operating activities		12.0	6.7	-3.8	51.1	16.5	18.3
Net cash provided by investing activities		5.8	-31.5	3.0	-6.3	-6.2	-6.1
Net cash provided by financing activities		2.6	31.9	3.1	0.0	0.0	0.0
Change in cash		20.3	7.1	2.3	44.8	10.3	12.2
Exchange rate difference		1.0	-0.5	0.8	0.0	0.0	0.0
Cash at the beginning of the year		17.8	39.1	45.6	48.7	93.5	103.8
Cash and cash equivalents at year's end		39.1	45.6	48.7	93.5	103.8	116.0

Source: Company Data; Oddo Seydler Bank AG

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

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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
25 March 2015	BUY (Company Update)	EUR 3.90	EUR 4.60
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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