

# Evotec AG

**BUY (BUY) | Target EUR 3.60 (EUR 4.60)**

Price (last closing price) : EUR 3.20 | Upside : 13%

Est. change EPS	2015e	2016e
	-	-

## EVT 302 trial results disappoint, but core biz undervalued at current price

**Wednesday, 01 July 2015**


Capital	
EVT GY   EVTG.DE	
Market Cap (EURm)	421.7
Enterprise value (EURm)	344
Extrema 12 months	4.3 - 2.4
Free Float (%)	80.9%

Performance (%)	1m	3m	12m
Absolute	-5.5	-4.5	-1.3
Perf. rel. "sector"	0.5	0.4	-17.8
Perf. rel. TecDAX	-2.3	-6.1	-20.5

P & L	12/15e	12/16e	12/17e
Sales (EURm)	121.4	132.3	146.9
EBITDA adj. (EURm)	13.6	15.2	17.4
EBIT (EURm)	5.5	7.1	9.3
Attr. net profit (EURm)	7.0	7.2	10.1
EPS (EUR)	0.05	0.05	0.08
Dividend (EUR)	0.00	0.00	0.00

P/E (x)	ns	ns	ns
P/B (x)	2.5	2.4	2.3
Dividend Yield (%)	-	-	-
FCF yield (%)	10.8	3.1	3.1
EV/Sales (x)	2.8	2.6	2.3
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**

 2Q15 results 12. Aug 15

### EVT 302 did not meet primary endpoint in Phase 2b (by Roche)

Evotec was updated today by its partner Roche on the initial results of the Phase IIb trial with Sembragiline (RG1577, EVT302), a MAO-B inhibitor for the treatment of Alzheimer's disease (AD). Sembragiline failed to demonstrate benefit on the primary endpoint after 52 weeks of treatment. Preliminary safety analyses showed that Sembragiline was well tolerated with no safety signals identified. Roche has initiated a process to evaluate all secondary endpoint read-outs on Sembragiline and to consider all further development options.

### FY15 outlook unchanged

The 2015 outlook remains unchanged: i) Group revenues excluding milestones, upfronts and licences increasing more than 35% yoy. ii) EBITDA before changes in contingent considerations positive. iii) R&D expenses growing to € 15-20m. iv) Liquidity well in excess of € 100m at 31 December 2015.

### Valuation

In our SOTP valuation, we had a risk-adjusted NPV for EVT 302 of € 158m, equating to 25% of the total SOTP valuation. Eliminating the EVT 302 program from our SOP valuation, our FVpS now decreases to € 3.58 (prev: € 4.78). Evotec's share price was already under pressure prior to the release of the trial results. Thus, we think that the negative outcome from the trial is now fully reflected in the price.

### Buying opportunity at current price

Despite the disappointing clinical results, we believe the stock is currently attractively valued at ~€ 3.00 and presents a buying opportunity for the following reasons:

- 1) On our estimates, the core business (incl. Sanofi deal) has a FVpS of € 2.36 (66% of our SOTP and 78% of current share price). This, coupled with a large net cash pile of € 0.97/share – representing 27% of our SOTP valuation or 32% of the current price – makes Evotec attractive in terms of valuation.
- 2) Evotec's product portfolio (not included in our SOP valuation), which comprises >70 programs in the fields of CNS and pain, metabolic diseases, oncology and anti-infective, is not reflected in the current stock price, in our view. Although the product pipeline is at a relatively young stage of development, such a broad portfolio provides considerable long-term potential for the company in our view.
- 3) After the elimination of EVT 302, our SOTP valuation is substantially derisked. While offering major commercial potential, AD is a tough indication associated with extremely high risk of failure. In our view, investors' realisation of this was one reason for the price pressure on Evotec in the last weeks. With this program now eliminated from our valuation, we believe that overall our valuation has a considerably lower risk profile.

### PT cut to EUR 3.60 but maintain BUY recommendation

We anticipate a rich newsflow in H2 2015 regarding new deals with pharma and biotech and milestones from existing alliances. We reduce our PT to EUR 3.60 but confirm our BUY recommendation.

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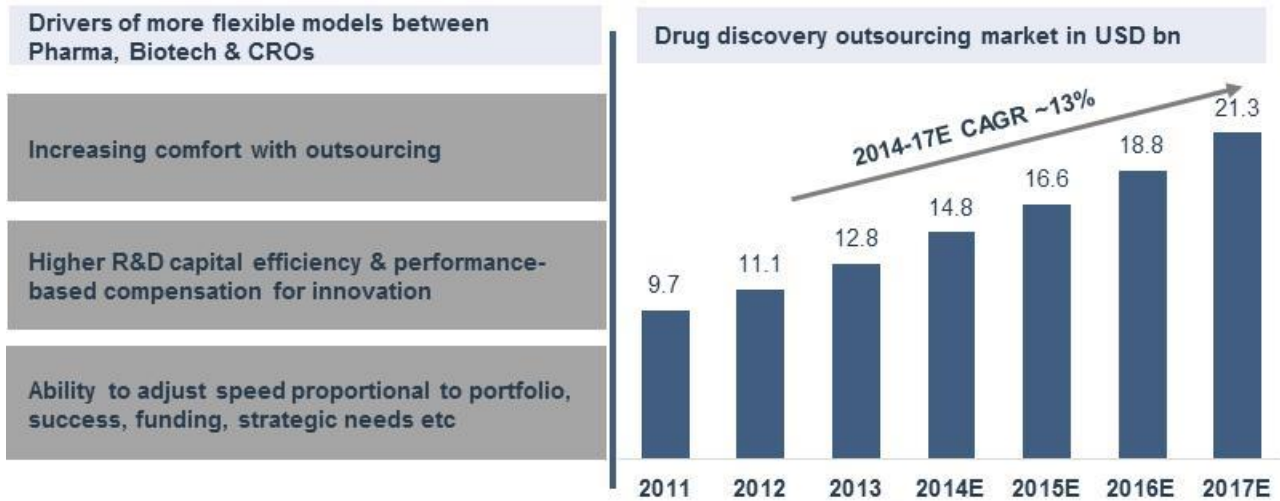
**SOP Valuation**

	Status	Indication	Valuation approach	NPV in EUR m	NPV in EUR/share	NPV contribution
<b>Discovery alliance business</b>	-	-	DCF	307.1	2.36	66%
<b>EVT 201 (Jingxin)</b>	Phase IIb planned to start in 2H/14	Insomnia	rNPV	33.2	0.26	7%
<b>Net cash*</b>	-	-		126.1	0.97	27%
<b>Total value</b>				<b>466.4</b>	<b>3.58</b>	<b>100%</b>

\*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
<b>Clinical</b>								
EVT302	Alzheimer's disease	Roche						
EVT201	Insomnia	JingXin						
Somatoprim	Acromegaly	Aspireo						
EVT103	TRD	Janssen						
EVT401	Inflammation	CONBA						
ND	Oncology	Boehringer Ingelheim						
ND	Oncology	Roche						
<b>Pre-clinical</b>								
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						
<b>Discovery</b>								
Various	Inflammation	UCB						
Various	Diabetes type 2/1	MedImmune/AstraZeneca						
Various	Diabetes type 2/1	Harvard						
Various	Kidney disease	AstraZeneca						
Various	Oncology	Debiopharm Group						
Various	Alzheimer's disease	J&J Innovation						
Various	Oncology	Sanof						
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
<b>Total revenues</b>		<b>87.3</b>	<b>85.9</b>	<b>89.5</b>	<b>121.4</b>	<b>132.3</b>	<b>146.9</b>
YoY growth		8.9%	-1.5%	4.1%	35.7%	9.0%	11.0%
<b>Gross profit</b>		<b>31.0</b>	<b>31.2</b>	<b>29.4</b>	<b>43.9</b>	<b>49.2</b>	<b>56.5</b>
as % of sales		35.6%	36.3%	32.8%	36.1%	37.2%	38.5%
<b>EBITDA adj.</b>		<b>10.2</b>	<b>10.4</b>	<b>7.7</b>	<b>11.1</b>	<b>12.7</b>	<b>14.9</b>
as % of sales		11.7%	12.1%	8.6%	9.1%	9.6%	10.1%
<b>Operating result</b>		<b>-3.2</b>	<b>-21.4</b>	<b>-6.4</b>	<b>5.5</b>	<b>7.1</b>	<b>9.3</b>
as % of sales		-3.7%	-24.8%	-7.1%	4.5%	5.4%	6.3%
<b>EBT</b>		<b>-5.0</b>	<b>-23.6</b>	<b>-5.2</b>	<b>5.2</b>	<b>5.3</b>	<b>7.5</b>
as % of sales		-5.7%	-27.5%	-5.8%	4.3%	4.0%	5.1%
Income taxes		7.5	-1.8	-1.8	1.8	1.9	2.6
as % of sales		-149.4%	7.5%	35.3%	35.3%	35.3%	35.3%
<b>Net income/loss</b>		<b>2.5</b>	<b>-25.4</b>	<b>-7.0</b>	<b>7.0</b>	<b>7.2</b>	<b>10.1</b>
as % of sales		2.8%	-29.6%	-7.8%	5.8%	5.4%	6.9%
<b>Basic EPS (EUR)</b>		<b>0.02</b>	<b>-0.21</b>	<b>-0.05</b>	<b>0.05</b>	<b>0.05</b>	<b>0.08</b>

Source: Company Data, Oddo Seydler Bank AG

## Balance sheet

	EUR m	2012	2013	2014	2015E	2016E	2017E
<b>Assets</b>							
<b>Noncurrent assets</b>		135.7	104.3	99.3	97.4	95.5	93.5
as % of total equity and liabilities		60.6%	46.1%	44.2%	35.9%	34.1%	32.1%
<b>Current assets</b>		88.3	121.8	125.3	174.0	184.8	198.1
as % of total equity and liabilities		39.4%	53.9%	55.8%	64.1%	65.9%	67.9%
<b>Total assets</b>		<b>224.0</b>	<b>226.1</b>	<b>224.6</b>	<b>271.4</b>	<b>280.3</b>	<b>291.6</b>

## Shareholders' equity and liabilities

<b>Shareholders' equity</b>		152.5	159.0	158.4	166.3	173.5	183.7
as % of total equity and liabilities		68.1%	70.3%	70.5%	61.3%	61.9%	63.0%
<b>Current liabilities</b>		33.9	39.0	33.1	73.0	74.7	75.9
as % of total equity and liabilities		15.1%	17.2%	14.7%	26.9%	26.7%	26.0%
<b>Noncurrent liabilities</b>		37.6	28.2	33.1	32.1	32.1	32.1
as % of total equity and liabilities		16.8%	12.5%	14.8%	11.8%	11.4%	11.0%
<b>Total equity and liabilities</b>		<b>224.0</b>	<b>226.1</b>	<b>224.6</b>	<b>271.4</b>	<b>280.3</b>	<b>291.6</b>

Source: Company Data; Oddo Seydler Bank AG

## Cash flow statement

	EUR m	2012	2013	2014	2015E	2016E	2017E
<b>Net result</b>		<b>2.5</b>	<b>-25.4</b>	<b>-7.0</b>	<b>7.0</b>	<b>7.2</b>	<b>10.1</b>
<b>Net cash used in operating activities</b>		<b>12.0</b>	<b>6.7</b>	<b>-3.8</b>	<b>45.1</b>	<b>13.6</b>	<b>14.9</b>
<b>Net cash provided by investing activities</b>		<b>5.8</b>	<b>-31.5</b>	<b>3.0</b>	<b>-6.3</b>	<b>-6.2</b>	<b>-6.1</b>
<b>Net cash provided by financing activities</b>		<b>2.6</b>	<b>31.9</b>	<b>3.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Change in cash</b>		<b>20.3</b>	<b>7.1</b>	<b>2.3</b>	<b>38.8</b>	<b>7.4</b>	<b>8.8</b>
Exchange rate difference		1.0	-0.5	0.8	0.0	0.0	0.0
<b>Cash at the beginning of the year</b>		<b>17.8</b>	<b>39.1</b>	<b>45.6</b>	<b>48.7</b>	<b>87.5</b>	<b>95.0</b>
<b>Cash and cash equivalents at year's end</b>		<b>39.1</b>	<b>45.6</b>	<b>48.7</b>	<b>87.5</b>	<b>95.0</b>	<b>103.7</b>

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%.

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

Date	Recommendation	Price at change date	Price target
01 July 2015	BUY (Company Update)	EUR 3.20	EUR 3.60
12 May 2015	BUY (Company Update)	EUR 3.88	EUR 4.60
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

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