

Evotec AG

BUY (BUY) | Target EUR 3.90 (EUR 3.60)

Price (last closing price) : EUR 3.65 | Upside : 7%

Est. change EPS	2015e	2016e
	-	-

Diabetes collaboration with Sanofi

Friday, 07 August 2015


Collaboration with Sanofi to discover and develop novel diabetes therapies

Evotec and Sanofi announced a strategic collaboration in the field of diabetes. The goal of this collaboration will be to develop a beta cell replacement therapy based on functional human beta cells derived from human stem cells. In addition, Sanofi and Evotec will also use human beta cells for high-throughput drug screening to identify beta cell active small molecules or biologics. Both companies will make significant contributions to this collaboration in terms of expertise, platforms and resources.

Sanofi is one of the leading companies in diabetes. Among others Sanofi markets injectable, inhaled and oral medications for people with type 1 or type 2 diabetes.

Beta cells are a type of cell in the pancreas producing insulin. The loss of such cells is ultimately the cause for elevated blood glucose levels in diabetes patients. The use of human stem cells in drug discovery and development is on the rise and will increasingly shift the landscape from symptomatic treatments to disease-modifying therapies in diabetes.

The financials of the deal

The agreement triggers an upfront payment for Evotec of € 3m and features potential pre-clinical, clinical, regulatory and commercial milestones which could total over € 300m as well as significant royalties and research payments. The upfront payment will further strengthen Evotec's cash position, but will be recognized in revenues over next three years.

Valuation: Current share price does not reflect the broad pipeline

Our updated SOTP valuation now indicates a FVpS of € 3.88 (prev: € 3.58). On our estimates, the core business (Discovery Alliance Business) has a FV of € 338.3m (FVpS of € 2.60 or ~70% of current share price). We estimate the company's large net cash pile at ~€ 131m (€ 1.01/share or 28% of the current price) at YE 2015e. Thus, the current share price, which largely reflects the core business and net cash, imply that Evotec's pipeline is considerably undervalued. Although the product pipeline (not included in our SOTP valuation) is at a relatively early stage of development, it comprises >70 product candidates in the fields of CNS and pain, metabolic diseases, oncology and anti-infective. Such a broad portfolio provides considerable long-term potential for the company in our view.

The new collaboration with Sanofi is also in an early stage, and so we currently do not include it in our SOTP valuation, leaving it as pure upside. But it certainly boosts the long term potential of the company and restores sentiment after the recent failure of the EVT 302 trial in Alzheimer disease.

PT upped to €3.90 (€3.60); reiterate BUY

The company was forecasting at least two deals within its EVT Innovate business. So we expect to see at least one collaboration by the end of the year, which should be a positive trigger for the stock. We raise our PT to € 3.90 (€ 3.60) and confirm our BUY recommendation.

Capital	
EVT GY EVTG.DE	
Market Cap (EURm)	481.0
Enterprise value (EURm)	403
Extrema 12 months	4.1 - 2.4
Free Float (%)	80.9%

Performance (%)	1m	3m	12m
Absolute	16.0	-1.2	10.0
Perf. rel. "sector"	8.4	-6.6	-17.6
Perf. rel. TecDAX	6.0	-10.3	-28.0

P & L	12/15e	12/16e	12/17e
Sales (EURm)	121.8	132.8	147.4
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	10.2
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)	2.9	2.8	2.6
Dividend Yield (%)	-	-	-
FCF yield (%)	10.5	2.8	2.8
EV/Sales (x)	3.3	3.0	2.7
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

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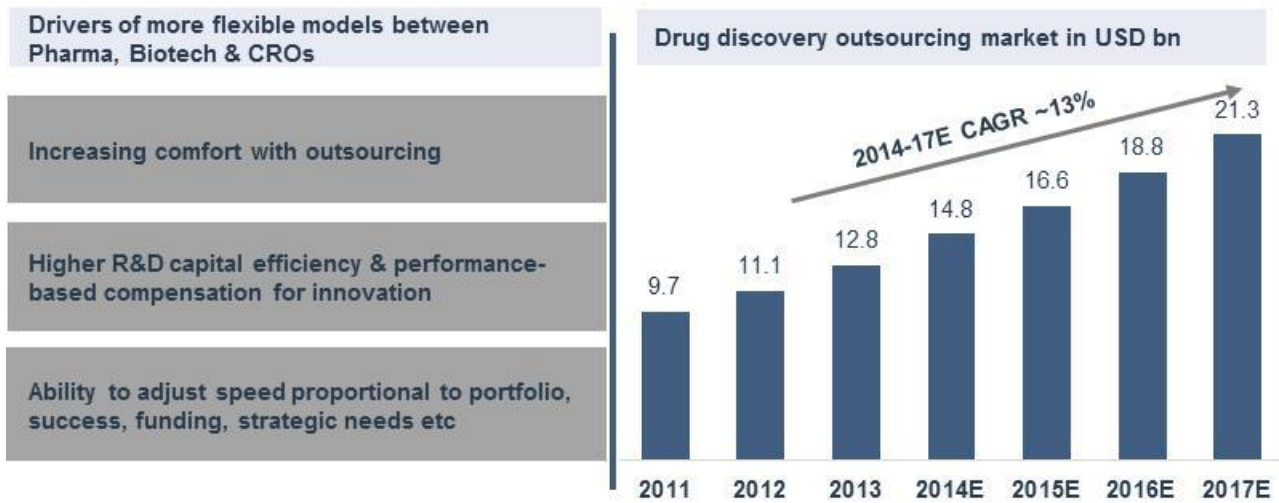
SOP Valuation

	Status	Indication	Valuation approach	NPV in EUR m	NPV in EUR/share	NPV contribution
Discovery alliance business	-	-	DCF	338.3	2.60	67%
EVT 201 (Jingxin)	Phase IIb planned to start in 2H/14	Insomnia	rNPV	34.8	0.27	7%
Net cash*	-	-		131.4	1.01	26%
Total value				504.5	3.88	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								
EVT201	Insomnia	JingXin						
Somatoprim	Acromegaly	Aspireo						
EVT100	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	Oncology	Debiopharm Group						
Various	Alzheimer's disease	J&J Innovation						
Various	Oncology	Sanofi						
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	121.8	132.8	147.4
YoY growth		8.9%	-1.5%	4.1%	36.1%	9.0%	11.0%
Gross profit		31.0	31.2	29.4	44.0	49.4	56.7
as % of sales		35.6%	36.3%	32.8%	36.1%	37.2%	38.5%
EBITDA adj.		9.4	13.4	13.4	13.6	15.2	17.4
as % of sales		10.8%	15.6%	15.0%	11.1%	11.4%	11.8%
Operating result		-3.2	-21.4	-6.4	5.5	7.1	9.3
as % of sales		-3.7%	-24.8%	-7.1%	4.5%	5.4%	6.3%
EBT		-5.0	-23.6	-5.2	5.2	5.3	7.5
as % of sales		-5.7%	-27.5%	-5.8%	4.2%	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%
Net income/loss		2.5	-25.4	-7.0	7.0	7.2	10.2
as % of sales		2.8%	-29.6%	-7.8%	5.7%	5.4%	6.9%
Basic EPS (EUR)		0.02	-0.21	-0.05	0.05	0.05	0.08

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	97.5	95.5	93.5
as % of total equity and liabilities		60.6%	46.1%	44.2%	35.9%	34.2%	32.2%
Current assets		88.3	121.8	125.3	174.1	184.0	197.3
as % of total equity and liabilities		39.4%	53.9%	55.8%	64.1%	65.8%	67.8%
Total assets		224.0	226.1	224.6	271.6	279.5	290.8

Shareholders' equity and liabilities

Shareholders' equity		152.5	159.0	158.4	165.4	172.6	182.7
as % of total equity and liabilities		68.1%	70.3%	70.5%	60.9%	61.7%	62.8%
Current liabilities		33.9	39.0	33.1	73.0	73.9	75.1
as % of total equity and liabilities		15.1%	17.2%	14.7%	26.9%	26.4%	25.8%
Noncurrent liabilities		37.6	28.2	33.1	33.1	33.0	32.9
as % of total equity and liabilities		16.8%	12.5%	14.8%	12.2%	11.8%	11.3%
Total equity and liabilities		224.0	226.1	224.6	271.6	279.5	290.8

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	7.0	7.2	10.2
Net cash used in operating activities		12.0	6.7	-3.8	50.1	13.2	15.5
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	43.7	7.0	9.4
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	92.4	99.5
Cash and cash equivalents at year's end		39.1	45.6	48.7	92.4	99.5	108.8

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
07 August 2015	BUY (Company Update)	EUR 3.65	EUR 3.90
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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