

Evotec AG

BUY (BUY) | Target EUR 4.00 (EUR 3.90)

Price (last closing price) : EUR 3.66 | Upside : 11%

Est. change EPS	2015e	2016e
	-	-

Evotec, Apeiron and Sanofi to jointly develop novel, small molecule-based cancer immunotherapies

Monday, 10 August 2015


Oncology collaboration with Sanofi

Evotec and Apeiron Biologics AG, a biotech company with a focus on immunological approaches to treat cancer, today announced a strategic collaboration with Sanofi to develop novel, small molecule-based cancer immunotherapies.

This collaboration includes major R&D efforts to advance the small-molecule approach to treat solid and haematopoietic (blood) cancers by enhancing the anti-tumour activity of human lymphocytes. Based on Evotec's technological expertise and Apeiron Biologics' immunological know-how, the collaboration will also focus on the identification of novel small molecule hits and their targets for next-generation therapies in immuno-oncology, which are expected to complement the current offerings of checkpoint inhibitors.

The financials of the deal

Under the terms of the agreement, Sanofi will have sole responsibility for all development, regulatory, commercial and manufacturing activities of the products resulting from the collaboration. Sanofi will support two years of funding for Evotec and Apeiron to conduct the research program, which will include potential early success milestone payments. Upon continuation, as decided by Sanofi, Evotec will be entitled to receive further development, regulatory and commercial milestone payments, which could total more than € 200m, as well as royalties on net sales.

Immunotherapy a hot trend in oncology domain

We see it as a positive that Evotec now has a foothold in such a hot trend as immunotherapy in oncology. Immuno-oncology is now considered a particularly promising field to create superior and potentially curative treatment options for many cancer patients.

Immunotherapy is a treatment approach that uses the body's own immune system to help fight cancer. Immunotherapy encompasses several different treatment approaches, each with a distinct mechanism of action. One such approach is immune checkpoint inhibitors, which play a key role in immunotherapy. The immune system depends on multiple checkpoints or "immunological brakes" to avoid overactivation of the immune system on healthy cells. Tumour cells often take advantage of these checkpoints to escape detection by the immune system.

PT upped to € 4.00 (€ 3.90); reiterate BUY

Evotec began cooperating with Apeiron in early 2013, so this partnership is now bearing fruit. The program is at an early stage, however. Also, no specific indications have been determined so far. Hence, we do not yet include this collaboration in our SOTP valuation; but it certainly boosts Evotec's long-term potential. We raise our PT to € 4.00 (€ 3.90) and confirm our Buy recommendation.

Capital	
EVT GY EVTG.DE	
Market Cap (EURm)	482.3
Enterprise value (EURm)	404
Extrema 12 months	4.1 - 2.4
Free Float (%)	80.9%

Performance (%)	1m	3m	12m
Absolute	14.3	-4.5	3.3
Perf. rel. "sector"	12.3	-6.7	-22.6
Perf. rel. TecDAX	10.4	-9.9	-32.3

P & L	12/15e	12/16e	12/17e
Sales (EURm)	12.8	13.2	14.7
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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SOTP 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

Drivers of more flexible models between Pharma, Biotech & CROs

Increasing comfort with outsourcing

Higher R&D capital efficiency & performance-based compensation for innovation

Ability to adjust speed proportional to portfolio, success, funding, strategic needs etc

Drug discovery outsourcing market in USD bn



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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Oddo Seydler uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 12 months:

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
10 August 2015	BUY (Company Update)	EUR 3.66	EUR 4.00
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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The figures taken from the income statement, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks. These may change at any time without prior notice.

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