

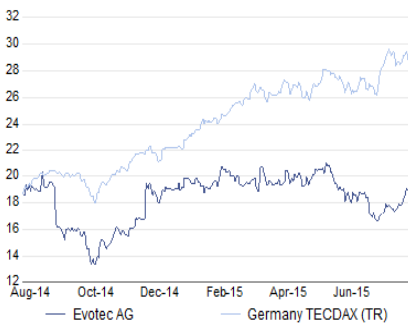
Evotec AG

BUY (BUY) | Target EUR 4.10 (EUR 4.00)

Price (last closing price) : EUR 3.80 | Upside : 8.0%

Est. change EPS	2015e	2016e
	-	-

Solid Q2 15 results; Cash at a record high level

Wednesday, 12 August 2015


Recap of Q2 15 results

Evotec (EVT) posted its Q2 2015 results today (12 August): Revenue was up +37% yoy (+3 lfl) to € 55m driven by i) the cash cow “EVT Execute” business (+49% yoy), ii) the contribution from the Sanofi collaboration, iii) milestone payments and iv) FX tailwind. The “EVT Innovate” segment was characterized by a notably higher R&D spend. Group R&D expense increased +34% yoy to € 8.5m (PY: € 6.3m). Operating income swung to € 12.9m (PY: € -3.6m) driven by a positive one-time effect (bargain purchase from the Sanofi deal). Adj. EBITDA came in at €0.8m (PY: €0.6m), and EpS turned positive, improving to € 0.10 (PY: € -0.03).

Cash improved substantially to € 141m as of the end of Q2 2015 vs. €89m at YE 2014.

Full-year 2015 outlook confirmed

Evotec confirmed its 2015 outlook after raising it in March and again in May 2015: >35% revenue growth (excluding milestones, upfronts and licenses), positive adj. EBITDA, R&D expense of (€ 15-20m) and liquidity well in excess of € 100m (current level: € 95m).

Two collaborations with Sanofi restore sentiment for EVT

Evotec has entered into two collaborations with Sanofi in Q3 2015 to develop: 1) Beta cell replacement therapy for diabetes patients (financials: € 3m upfront and >€ 300m potential milestones), and 2) Small molecule-based cancer immunotherapies (financials: two years funding by Sanofi and >€200m of potential milestones). Both Sanofi collaborations are early-stage and as such they represent more the long-term potential of the company.

PT upped to € 4.10 (€ 4.00); reiterate BUY

Our SOTP valuation indicates a FVpS of € 4.04. On our estimates, the core business (Discovery Alliance Business) has a FV of € 358.3m (FVpS: € 2.75 or ~70% of current share price). Coupled with company’s large net cash pile at ~€ 132.2m (€ 1.02/share or 26% of the current price) as of H1 15, the current share price largely reflects the core business and net cash, implying 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. We lift our PT to € 4.10 (€ 4.00) and confirm our Buy recommendation.

Capital	
EVT GY EVTG.DE	
Market Cap (EURm)	500.8
Enterprise value (EURm)	423
Extrema 12 months	4.1 - 2.4
Free Float (%)	80.9%

Performance (%)	1m	3m	12m
Absolute	15.9	-5.0	0.6
Perf. rel. "sector"	16.0	-6.5	-22.6
Perf. rel. TecDAX	13.9	-9.2	-31.3

P & L	12/15e	12/16e	12/17e
Sales (EURm)	12.18	147.8	174.5
EBITDA adj. (EURm)	8.1	15.4	17.1
EBIT (EURm)	18.4	7.3	9.0
Attr. net profit (EURm)	24.5	7.5	9.8
EPS (EUR)	0.19	0.06	0.07
Dividend (EUR)	0.00	0.00	0.00

P/E (x)	ns	ns	ns
P/B (x)	2.7	2.6	2.5
Dividend Yield (%)	-	-	-
FCF yield (%)	13.8	2.2	2.2
EV/Sales (x)	3.5	2.9	2.4
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

 Q3 15 results 10. Nov 15

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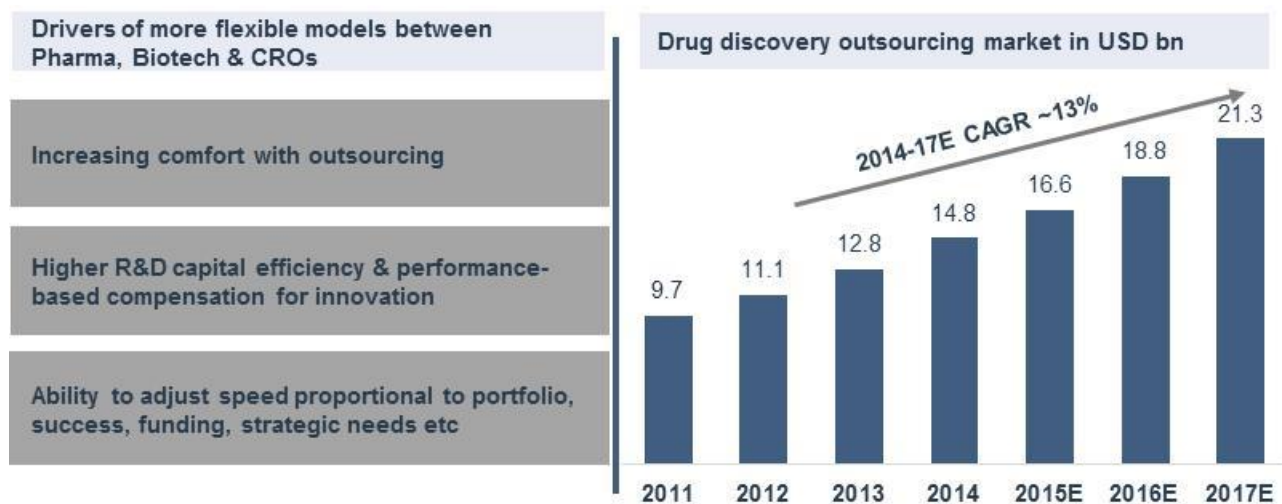
SOTP Valuation

	Status	Indication	Valuation approach	NPV in EUR m	NPV in EUR/share	NPV contribution
Discovery alliance business	-	-	DCF	358.3	2.75	68%
EVT 201 (Jingxin)	Phase IIb planned to start in 2H/14	Insomnia	rNPV	34.8	0.27	7%
Net cash	-	-		132.2	1.02	25%
Total value				525.3	4.04	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	147.8	174.5
YoY growth		8.9%	-1.5%	4.1%	36.1%	21.3%	18.1%
Gross profit		31.0	31.2	29.4	40.0	50.2	61.6
as % of sales		35.6%	36.3%	32.8%	32.8%	34.0%	35.3%
EBITDA adj.		10.2	10.4	7.7	8.1	15.4	17.1
as % of sales		11.7%	12.1%	8.6%	6.6%	10.4%	9.8%
Operating result		-3.2	-21.4	-6.4	18.4	7.3	9.0
as % of sales		-3.7%	-24.8%	-7.1%	15.1%	5.0%	5.2%
EBT		-5.0	-23.6	-5.2	18.2	5.5	7.2
as % of sales		-5.7%	-27.5%	-5.8%	14.9%	3.7%	4.1%
Income taxes		7.5	-1.8	-1.8	6.4	2.0	2.5
as % of sales		-149.4%	7.5%	35.3%	35.3%	35.3%	35.3%
Net income/loss		2.5	-25.4	-7.0	24.5	7.5	9.8
as % of sales		2.8%	-29.6%	-7.8%	20.2%	5.1%	5.6%
Basic EPS (EUR)		0.02	-0.21	-0.05	0.19	0.06	0.07

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%	33.7%	31.9%	30.0%
Current assets		88.3	121.8	125.3	192.2	204.1	218.2
as % of total equity and liabilities		39.4%	53.9%	55.8%	66.3%	68.1%	70.0%
Total assets		224.0	226.1	224.6	289.8	299.6	311.8

Shareholders' equity and liabilities

Shareholders' equity	152.5	159.0	158.4	182.9	190.4	200.2
as % of total equity and liabilities	68.1%	70.3%	70.5%	63.1%	63.6%	64.2%
Current liabilities	33.9	39.0	33.1	73.7	76.2	78.6
as % of total equity and liabilities	15.1%	17.2%	14.7%	25.4%	25.4%	25.2%
Noncurrent liabilities	37.6	28.2	33.1	33.1	33.0	33.0
as % of total equity and liabilities	16.8%	12.5%	14.8%	11.4%	11.0%	10.6%
Total equity and liabilities	224.0	226.1	224.6	289.8	299.6	311.8

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	24.5	7.5	9.8
Net cash used in operating activities		12.0	6.7	-3.8	68.0	11.0	13.0
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	61.7	4.8	6.9
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	110.4	115.2
Cash and cash equivalents at year's end		39.1	45.6	48.7	110.4	115.2	122.1

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
12 August 2015	BUY (Company Update)	EUR 3.80	EUR 4.10
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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