

Healthcare: Biotechnology

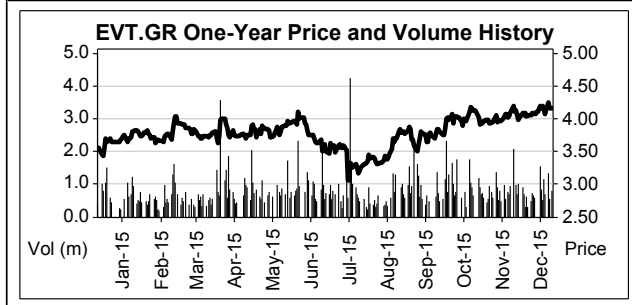
Evotec AG | EVT.GR - €4.16 - FSE | Buy

Company Update

Stock Data			
52-Week Low - High	€3.05 - €4.31		
Shares Out. (mil)	132.54		
Mkt. Cap.(mil)	€551.9		
3-Mo. Avg. Vol.	870,432		
12-Mo.Price Target	€5.00		
Cash (mil)	€140.9		
Tot. Debt (mil)	€21.5		
Est. 3Yr. EPS Growth	27%		

EPS €			
Yr Dec	—2014—	—2015E—	—2016E—
		Curr	Curr
1Q	(0.03)A	(0.01)A	-
2Q	0.00A	0.11A	-
3Q	(0.03)A	(0.02)A	-
4Q	0.01A	0.01E	-
YEAR	(0.05)A	0.10E	0.08E
P/E	NM	0.0x	0.0x

Revenue (€ millions)			
Yr Dec	—2014—	—2015E—	—2016E—
		Curr	Curr
1Q	17.6A	21.5A	-
2Q	22.5A	33.6A	-
3Q	18.8A	33.2A	-
4Q	30.6A	41.6E	-
YEAR	89.5A	129.8E	149.1E



EVT.GR: 4th Milestone Reached in Bayer's Endometriosis Program

Evotec announced it has received two pre-clinical milestone payments for the transition of the third and fourth projects in a 2012, five-year agreement with Bayer to identify novel mechanisms in endometriosis. While the milestones should push 4Q15's financial performance comfortably beyond 2015 financial guidance, we're more interested in the potential value from this program, being funded by Bayer (BAYG.DE - NC), a leading developer of endometriosis medications.

Three years, four pre-clinical candidates identified. Reached in 4Q12, Evotec and Bayer share the responsibility in this collaboration for the early research and pre-clinical characterization of potential clinical candidates to treat endometriosis. These are not follow-on products, but novel agents stemming from each company's expertise. According to management, there are ~30 Evotec scientists and ~35 Bayer scientists working on this project, which in our view is more than most biotech companies with market caps similar to Evotec's, yet this program is only the fourth largest program (by collaboration revenue, see Exhibit 1) and is among the dozens of Evotec's partnered programs (see Exhibit 2). The next event in this program may come in 1H16. There are ~\$700M in remaining milestones, with revenue royalties in the low double-digits.

Endometriosis, a blockbuster opportunity. Endometriosis is a hormonal and inflammatory disease in which menstrual blood and small bits of tissue shed from the endometrium flow backwards via the fallopian tubes into the abdominal cavity where they begin growing. With an incidence rate of 10% of women of child-bearing age, this is a blockbuster indication with no adequate remedies today. Typically, the disease is identified after a number of years in pain, with up to ten years between the onset of discomfort and diagnosis. "Roughly half of Bayer's endometriosis product portfolio is currently being worked on in collaboration with Evotec."¹ In addition to the partnership with Evotec, Bayer also launched a joint venture with the University of Oxford, U.K., an academic leader in the field of endometriosis and pain therapy, in July 2014.

Bayer milestone should push 2015 financials comfortably beyond guidance. Given management's remarks during the Nov 10th 3Q15 conference call, we felt comfortable with its 2015 guidance. With milestone payments being excluded from guidance, we now believe there's upside to our estimates and consensus estimates for 4Q15. We estimate ~€3M from this milestone payment (terms undisclosed), which may produce 4Q15 revenues of €45M while 4Q15 implied guidance is €41.6M.

¹ <http://www.research.bayer.com/en/endometriosis.aspx>

Exhibit 1: Revenues of leading alliance partners, 2008-2014

In € (000)	2008	2009	2010	2011	2012	2013	2014
CHDI	8,258	9,090	9,211	8,915	9,905	10,423	11,177
Bayer	-	-	-	-	512	3,988	10,867
Janssen	-	-	-	-	4,949	6,067	8,344
Top 3	-	-	-	-	15,366	20,478	30,388
Top 4-10	-	-	37,419	54,079	49,834	43,720	27,066
Top 10	32,382	34,686	46,630	62,994	65,200	64,208	57,454
Top 3's Share of Top 10	na	na	20%	14%	24%	32%	53%
Growth in Top 10's	na	7%	34%	35%	4%	-2%	-11%
Evotec's Group Revenues	-	-	55,262	80,128	87,265	85,938	89,496
Top 10's share of Group	-	-	84%	79%	75%	75%	64%
<u>Previous leaders:</u>							
Boehringer Ingelheim	12,588	7,988	13,754	17,022	13,546	18,262	na
UCB Pharma	-	-	-	1,120	9,792	8,873	na

Sources: Evotec AG, 2013 and 2014 Annual Reports

Exhibit 2: Evotec's EVT Innovate pipeline of partnered assets

	Molecule	Indication	Partner	Discovery	Pre-clinical	Phase 1	Phase 2	Phase 3	Market
7 Clinical	EVT302*	Alzheimer's disease	Roche	[Progress bar]					
	EVT201	Insomnia	JingXin	[Progress bar]					
	Somatriptan	Acromegaly	Cortendo	[Progress bar]					
	EVT100	CNS diseases	Janssen	[Progress bar]					
	EVT401	Inflammation	CONBA	[Progress bar]					
	Not Disclosed	Oncology	Boehringer	[Progress bar]					
	Not Disclosed	Oncology	Roche	[Progress bar]					
7 Pre-clinical	Not Disclosed	Pain	Novartis	[Progress bar]					
	Not Disclosed	Oncology	Boehringer	[Progress bar]					
	Multiple	Endometriosis	Bayer	[Progress bar]					
	EVT770	T1D & T2D	MedImmune**	[Progress bar]					
	Not Disclosed	Pain	Boehringer	[Progress bar]					
	Not Disclosed	Inflammation	Second Genome	[Progress bar]					
	Not Disclosed	5 in Oncology	Sanofi	[Progress bar]					
13 Discovery categories	Various	Inflammation	UCB	[Progress bar]					
	Various	T1D & T2D	MedImmune**	[Progress bar]					
	Various	T1D & T2D	Harvard Univ***	[Progress bar]					
	Various	Kidney disease	AstraZeneca	[Progress bar]					
	Various	Diabetes	Sanofi	[Progress bar]					
	Various	Alzheimer's disease	JNJ	[Progress bar]					
	Various	Immunotherapies	Sanofi/Apeiron	[Progress bar]					
	Various	Tissue fibrosis	Pfizer	[Progress bar]					
	Various	CNS/MS	NEU ² consortium	[Progress bar]					
	Various	Diabetes	>5 programs	[Progress bar]					
	Various	Neurology	>5 programs	[Progress bar]					
	Various	Oncology	>10 programs	[Progress bar]					
	Various	Pain & Inflammation	>5 programs	[Progress bar]					

*= RO4602522; **= AstraZeneca; ***Beta cell regeneration programme w ith Janssen phased out. CureBeta alliance betw een Harvard and Evotec continues.
T1D= Type 1 diabetes; T2D= Type 2 diabetes

Source: Evotec corporate presentation, Nov 10, 2015

VALUATION

We reiterate our Buy rating and €5.00 price target. Our PT is derived from our 2017 and 2018 EPS estimates of €0.15 and €0.16, respectively, discounted by 15% to account for Evotec's steady operations and apply a 25X PE multiple to account for the high rate of growth during these forecasted years. We include our YE16 net cash estimate of €0.96/share, plus €0.98/share for the rNPV of Evotec's pipeline. Factors that may impede shares of EVT.GR from achieving our price target include currency and trading risks, as well as execution risks that may be related to the integration of the Sanofi employees.

RISKS

Drug discovery and research risks

While Evotec AG is an experienced drug discovery company there is no assurance that the company can and will be able to continue to provide research services that outside parties will agree to, and pay for. We cannot define the explicit value that investors are attributing to Evotec's more stable, research services business versus the potential of its pipeline. If the expected value of Evotec's future revenue and profitability potential falls, investors should expect the value of their holdings could decline.

Currency and trading risks

Geographically, 39% of Evotec's revenues were generated with customers in Europe, 46% in the US and 15% in Japan and the rest of the world. Because Evotec offers its services to worldwide customers there are currency risks to all investors and as such, investors may experience detrimental currency changes which may cause the value of their holdings to decline.

Partnering risks

Because Evotec AG's operating model relies on the initiation and continuation of partnerships with outside parties in mixed and fluctuating degrees of research efforts, Evotec and its shareholders are reliant upon the continued "best efforts" of outside parties. These parties may change their previous intentions towards the development agreements with Evotec and/or may fail in the quality and timeliness of their own execution efforts that may be detrimental to Evotec shareholders.

COMPANY DESCRIPTION

Evotec AG is a drug discovery company headquartered in Hamburg, Germany with operations and customers worldwide. The company is strategically focused on the discovery of novel drugs and drug targets. By design, Evotec is on the cutting edge of discovering the tools, targets and etiologies of undertreated diseases. As a result, Evotec's unique expertise in drug discovery produces scientific methods that are valued by pharmaceutical and biotechnology companies worldwide. Strategically, this 22-year-old company evolves with the biotechnology and drug discovery industries. While continuing to operate a profitable drug discovery services business, in the late 2000s the company began a strategic effort to retain an interest in the clinical assets that it had primarily discovered. These cores competencies are not mutually exclusive as Evotec executes similar services in its core "services business" called EVT Execute as it does in developing clinical assets that the company retains ownership of, called EVT Innovate. This overlap contributes to the high net margins (~30%) on its EVT Execute segment yet provides the company an increased opportunity to develop assets to be funded and developed by outside partners.

Fiscal Period:		Actual						Projected								
		2010	2011	2012	2013	2014	Q115	Q215	Q315	Q415	2015	2016	2017	2018	2019	2020
Evotec AG																
Income Statement, in € (000)																
		Michael Higgins Senior Research Analyst ROTH Capital Partners mhiggins@roth.com														
Total Revenue		55,262	80,128	87,265	85,938	89,496	21,542	33,416	33,240	41,552	129,750	149,093	161,258	174,415	187,222	200,969
Cost of revenue		(30,916)	(45,143)	(56,242)	(54,716)	(60,118)	(14,919)	(24,273)	(22,837)	(29,086)	(91,115)	(92,438)	(96,916)	(101,344)	(104,863)	(108,143)
Gross Profit		24,346	34,985	31,023	31,222	29,378	6,623	9,143	10,403	12,466	38,635	56,656	64,342	73,071	82,358	92,826
Operating income and (expenses)																
Research & development		(6,116)	(8,437)	(8,340)	(9,664)	(12,404)	(3,834)	(4,672)	(4,995)	(4,499)	(18,000)	(17,891)	(19,351)	(20,930)	(22,467)	(24,116)
Selling, general & administrative		(15,956)	(15,760)	(16,301)	(16,597)	(17,990)	(5,118)	(7,268)	(6,661)	(6,965)	(26,012)	(26,837)	(29,026)	(29,650)	(29,955)	(30,145)
<u>Other operating (expenses)</u>		(559)	(5,581)	(9,584)	(26,312)	(5,365)	(971)	19,019	616	87	18,751	378	416	457	503	553
Amortization of intangible rights		(672)	(1,703)	(2,768)	(3,222)	(2,462)	(587)	(877)	(709)	(732)	(2,905)	(3,195)	(3,515)	(3,866)	(4,253)	(4,678)
Impairment of intangible assets		0	(2,058)	(3,505)	(22,023)	(14,967)	0	(69)	0	0	(69)	0	0	0	0	0
Income from bargain purchase		0	0	0	0	0	0	18,476	0	0	18,476	0	0	0	0	0
Other operating (income)		4,536	1,426	2,202	4,410	15,352	1,258	3,224	3,486	2,683	10,651	11,716	12,887	14,176	15,593	17,153
Other operating expenses		(4,423)	(4,747)	(5,513)	(1,980)	(9,732)	(1,642)	(1,735)	(2,161)	(1,864)	(7,402)	(8,143)	(8,957)	(9,853)	(10,838)	(11,922)
Total operating expenses		(22,631)	(29,778)	(34,225)	(52,573)	(35,759)	(9,923)	7,079	(11,040)	(11,377)	(25,261)	(44,350)	(47,962)	(50,123)	(51,919)	(53,709)
Operating income		1,715	5,207	(3,202)	(21,351)	(6,381)	(3,300)	16,222	(637)	1,089	13,374	12,305	16,380	22,948	30,439	39,118
Other non-operating income (expenses)																
Interest income		241	413	655	261	469	178	82	120	134	478	488	498	508	518	528
Interest expense		(866)	(1,858)	(1,859)	(1,870)	(1,621)	(406)	(340)	(458)	(463)	(1,653)	(1,686)	(1,720)	(1,755)	(1,790)	(1,826)
Loss from equity investments		0	0	0	0	(10)	0	(6)	(10)	0	(16)	0	0	0	0	0
Total non-operating income (expense)		2,152	49	(1,812)	(2,297)	1,222	1,932	(746)	(594)	(329)	263	(1,199)	(1,223)	(1,247)	(1,272)	(1,297)
Income before taxes		3,867	5,256	(5,014)	(23,648)	(5,159)	(1,368)	15,476	(1,231)	760	13,637	11,107	15,158	21,701	29,167	37,820
Total tax gain (expenses)		(882)	1,395	7,492	(1,785)	(1,819)	296	(849)	(1,655)	0	0	0	0	0	0	0
Net Income (loss)		2,985	6,651	2,478	(25,433)	(6,978)	(1,072)	14,627	(2,886)	760	13,637	11,107	15,158	21,701	29,167	37,820
Average basic & diluted shares (000)		9,013	116,022	117,296	121,215	131,291	131,451	131,489	131,545	131,618	131,526	131,815	132,105	132,395	132,686	132,978
Net Income (loss) per share (basic)		€ 0.33	€ 0.06	€ 0.02	(€ 0.21)	(€ 0.05)	(€ 0.01)	€ 0.11	(€ 0.02)	€ 0.01	€ 0.10	€ 0.08	€ 0.11	€ 0.16	€ 0.22	€ 0.28
Net Income (loss) per share (diluted)		€ 0.33	€ 0.06	€ 0.02	(€ 0.21)	(€ 0.05)	(€ 0.01)	€ 0.11	(€ 0.02)	€ 0.01	€ 0.10	€ 0.08	€ 0.11	€ 0.16	€ 0.22	€ 0.28

Sources: Company financial reports and ROTH Capital Partners

Evotec AG Balance Sheet, in € (000)		Actual						Projected						
		2011	2012	2013	2014	Q115	Q215	Q315	Q415	2015	2016	2017	2018	2019
ASSETS														
Current assets:														
Cash and cash equivalents	17,777	39,065	45,644	48,710	49,284	59,060	49,359	50,119	50,119	61,225	76,383	98,084	127,251	165,072
Investments	44,651	25,094	50,499	40,112	46,490	81,816	89,463	89,552	89,552	89,911	90,270	90,631	90,994	91,358
Trade accounts receivables	10,393	15,053	17,777	25,259	13,804	18,985	17,527	17,615	17,615	17,967	18,326	18,693	19,067	19,448
Inventories	3,556	2,445	2,358	3,111	3,772	3,255	3,689	3,707	3,707	3,782	3,857	3,934	4,013	4,093
Current tax receivables	201	480	433	887	1,535	2,243	2,266	2,277	2,277	2,323	2,369	2,417	2,465	2,514
Other current financial assets	1,355	1,478	1,995	1,094	1,908	1,137	839	843	843	860	877	895	913	931
Prepaid expenses and other current assets	2,965	4,489	3,820	6,127	7,049	7,694	8,173	8,214	8,214	8,378	8,546	8,717	8,891	9,069
Total current assets	83,333	88,104	122,526	125,300	123,842	174,199	171,339	172,328	172,328	184,446	200,629	223,371	253,594	292,485
Non-current assets:														
Property, plant and equipment	24,946	27,181	24,239	24,045	25,816	38,241	36,901	37,086	37,086	37,827	38,584	39,355	40,143	40,945
Intangible assets, excluding goodwill	67,652	63,266	39,826	30,210	30,968	31,836	30,940	31,095	31,095	31,717	32,351	32,998	33,658	34,331
Goodwill	42,202	42,342	40,136	44,815	47,192	46,271	45,221	45,447	45,447	46,356	47,283	48,229	49,193	50,177
Other non-current financial assets	70	75	77	78	78	78	78	78	78	80	82	83	85	87
Other non-current assets	0	1,634	566	139	96	52	10	10	10	10	10	11	11	11
Total non-current assets	134,880	137,323	104,854	99,300	104,155	116,478	113,150	113,716	113,716	115,990	118,310	120,676	123,090	125,551
Total assets	218,213	225,427	227,380	224,600	227,997	290,677	284,489	286,043	286,043	300,436	318,939	344,047	376,683	418,037
LIABILITIES														
Current Liabilities														
Current loan liabilities	13,174	13,223	17,222	13,363	13,512	13,886	14,031	14,101	14,101	14,383	14,671	14,964	15,264	15,569
Trade accounts payable	10,134	6,363	6,653	9,450	6,822	12,203	9,341	9,388	9,388	9,575	9,767	9,962	10,162	10,365
Advanced payments received	782	232	232	542	284	475	1,172	1,178	1,178	1,201	1,225	1,250	1,275	1,300
Provisions	11,045	6,914	5,788	3,694	4,618	13,982	15,383	15,460	15,460	15,769	16,084	16,406	16,734	17,069
Deferred revenues	5,875	5,548	6,051	2,806	2,439	23,980	18,327	18,419	18,419	18,787	19,163	19,546	19,937	20,336
Current income tax payables	492	502	741	1,046	850	257	1,038	1,043	1,043	1,064	1,085	1,107	1,129	1,152
Other current financial liabilities	1,147	234	342	1,384	998	197	320	322	322	328	335	341	348	355
Other current liabilities	152	865	1,919	783	1,294	1,392	2,787	2,801	2,801	2,857	2,914	2,972	3,032	3,092
Total current liabilities	42,833	33,882	38,953	33,068	30,817	66,372	62,399	62,711	62,711	63,965	65,245	66,549	67,880	69,238
Non-current liabilities														
Non-current loan liabilities	2,359	4,178	0	8,186	8,719	8,676	8,900	8,945	8,945	9,123	9,306	9,492	9,682	9,875
Deferred tax liabilities	9,904	2,099	1,245	1,583	1,643	1,963	1,719	1,728	1,728	1,762	1,797	1,833	1,870	1,907
Provisions	14,618	18,817	18,586	17,957	18,900	29,620	27,734	27,873	27,873	28,430	28,999	29,579	30,170	30,774
Deferred revenues	9	12,516	8,382	4,344	3,550	2,496	5,390	5,417	5,417	5,525	5,636	5,749	5,863	5,981
Other non-current financial liabilities	1,244	1,388	1,233	1,079	1,041	1,002	964	969	969	988	1,008	1,028	1,049	1,070
Total non-current liabilities	28,135	38,998	29,460	33,149	33,853	43,757	44,707	44,931	44,931	45,829	46,746	47,681	48,634	49,607
STOCKHOLDERS EQUITY														
Share capital	118,316	118,547	131,460	131,711	131,735	131,783	132,364	132,656	132,656	133,826	135,007	136,198	137,399	138,611
Additional paid-in capital	663,820	665,918	686,767	688,669	689,082	691,042	692,554	691,183	691,183	691,488	691,807	692,140	692,488	692,850
Accumulated other comprehensive income	(25,995)	(25,501)	(27,410)	(23,169)	(17,590)	(17,004)	(19,376)	(19,473)	(19,473)	(19,862)	(20,260)	(20,665)	(21,078)	(21,500)
Accumulated deficit	(608,895)	(606,417)	(631,850)	(638,828)	(639,900)	(625,273)	(628,159)	(627,399)	(627,399)	(616,293)	(601,135)	(579,434)	(550,267)	(512,446)
Total Stockholders' equity	147,245	152,547	158,967	158,383	163,327	180,548	177,383	176,967	176,967	189,159	205,419	228,239	258,543	297,515
Total liabilities and stockholders' equity	218,213	225,427	227,380	224,600	227,997	290,677	284,489	284,608	284,608	298,954	317,409	342,469	375,057	416,360

Sources: Company financial reports and ROTH Capital Partners

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Disclosures:

Shares of Evotec AG may be subject to the Securities and Exchange Commission's Penny Stock Rules, which may set forth sales practice requirements for certain low-priced securities.

On September 28, 2010, ROTH changed its rating system in order to replace the Hold rating with Neutral.

On May 26, 2011, ROTH changed its rating system in order to incorporate coverage that is Under Review.



Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 12/11/15	
			Count	Percent
Buy [B]	221	76.47	130	58.82
Neutral [N]	33	11.42	18	54.55
Sell [S]	4	1.38	0	0
Under Review [UR]	26	9.00	15	57.69

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

Ratings System Definitions - ROTH employs a rating system based on the following:

Buy: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return of at least 10% over the next 12 months.

Neutral: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

Sell: A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

Under Review [UR]: A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

Not Covered [NC]: ROTH does not publish research or have an opinion about this security.

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