

5 April 2012

Evotec

Year End	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/10	55.3	4.5	3.8	0.0	74.4	N/A
12/11	80.1	7.5	5.6	0.0	50.7	N/A
12/12e	89.3	8.7	6.7	0.0	42.5	N/A
12/13e	104.6	13.5	10.6	0.0	26.7	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Investment summary: Transformation continues

Evotec has initiated Action Plan 2016 with the goal of doubling revenues by 2016 while increasing the operating margin. The new strategy includes the broader goal of providing more innovative treatment solutions to pharmaceutical companies, such as potential cures for diabetes and kidney disease. This follows the successful completion of Action Plan 2012. Over the past three years, revenues have grown at a CAGR of 26%, with increasing profitability over the last two years.

45% revenue growth in FY11

FY11 revenues grew by 45% to €80.1m and operating profit by 204% to €5.2m, despite a net impairment charge of €0.6m and R&D investments increasing by 38%. The acquisitions of Kinaxo and Compound Focus in FY11 contributed €8m in sales. The other key sales growth drivers were the licensing deal with Roche for EVT302 for the treatment of Alzheimer's disease and three new strategic alliances.

Ambitious new goals

Evotec's Action Plan 2016 aims to double revenues and increase the operating margin from 6.5% to c 15% by 2016. The new strategy has three pillars: EVT Execute (standalone projects); EVT Integrate (integrated drug discovery alliances); and EVT Innovate (first-in-class discovery alliances). The key extension is EVT Innovate, focused on developing truly innovative medicines, eg cures for diabetes and kidney disease from research by the CureBeta and CureNephron collaborations.

Deal with top-five pharma company expected

Evotec disclosed that its gross margin in Q411 was impacted by preliminary work for a top-five pharma company. Thus, it is likely that a major new alliance will soon be announced. Another catalyst expected in the coming months is the reporting of the data (and potential milestone) from the successful Phase III trial with DiaPep277.

Valuation: DCF valuation decreased to €484m

We have lowered our DCF valuation by €46m to €484m, following the new guidance on revenue growth and margins. We have raised sales forecasts by 3.7% and 6.9% in FY12 and FY13, respectively, but have reduced our adj PBT estimates by 24.7% and 20.9% because of lower finance income, and higher admin and R&D expenses.

Price €2.83

Market Cap €334m

Share price graph



Share details

Code	EVT
Listing	Frankfurt, Prime Standard
Sector	Pharmaceuticals & Biotech
Shares in issue	118.3m

Price

52 week	High	Low
	€3.25	€1.58

Balance Sheet as at 31 December 2011

Debt/Equity (%)	N/A
NAV per share (€)	1.24
Net cash (€m)	49.9

Business

Evotec is a drug discovery business that provides outsourcing solutions to pharmaceutical companies, including Boehringer Ingelheim, Pfizer and Roche. It has operations in Germany, India, UK and US.

Valuation

	2011	2012e	2013e
P/E relative	483%	404%	281%
P/CF	30.0	19.9	15.1
EV/Sales	3.4	3.2	2.6
ROE	4.4%	5.1%	7.6%

Geography based on revenues

UK	Europe	US	Other
N/A	55%	33%	12%

Analysts

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Exhibit 1: Financials

Note: The company is targeting liquidity of over €60m at FY12, comprised of cash and non-current cash equivalents; we forecast liquidity of €64.5m at FY12. Net debt includes non-current cash equivalents. FY12 estimates include expected €4.8m earn-out payments following the acquisitions of Kinaxo and Compound Focus.

Year end 31 December	€'000s	2009 IFRS	2010 IFRS	2011 IFRS	2012e IFRS	2013e IFRS
PROFIT & LOSS						
Revenue		42,683	55,262	80,128	89,278	104,627
Cost of Sales		(24,262)	(30,916)	(45,143)	(54,480)	(64,218)
Gross Profit		18,421	24,346	34,985	34,798	40,409
EBITDA		(15,547)	6,480	7,467	15,207	21,018
Operating Profit (before GW and except.)		(19,157)	2,387	7,467	9,748	14,499
Intangible Amortisation		(455)	(672)	(1,703)	(1,676)	(1,634)
Exceptionals/Other		(22,687)	0	(557)	0	0
Operating Profit		(42,299)	1,715	5,207	8,072	12,865
Net Interest		66	(625)	(1,445)	(1,071)	(1,031)
Other		(2,586)	2,777	1,494	0	0
Profit Before Tax (norm)		(21,677)	4,539	7,516	8,678	13,467
Profit Before Tax (FRS 3)		(44,819)	3,867	5,256	7,001	11,833
Tax		(363)	(676)	(1,153)	(804)	(942)
Deferred tax		(315)	(206)	2,548	(0)	(0)
Profit After Tax (norm)		(22,040)	3,863	6,363	7,873	12,526
Profit After Tax (FRS 3)		(45,497)	2,985	6,651	6,197	10,892
Average Number of Shares Outstanding (m)		106.8	109.0	116.0	118.3	118.3
EPS - normalised (c)		(20.6)	3.8	5.6	6.7	10.6
EPS - FRS 3 (c)		(42.6)	3.0	5.8	5.2	9.2
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		43.2	44.1	43.7	39.0	38.6
EBITDA Margin (%)		N/A	11.7	9.3	17.0	20.1
Operating Margin (before GW and except.) (%)		N/A	4.3	9.3	10.9	13.9
BALANCE SHEET						
Fixed Assets		77,642	105,167	134,880	139,798	141,062
Intangible Assets		45,567	83,594	109,854	108,178	106,544
Tangible Assets		19,162	18,487	24,946	31,540	34,437
Other		12,913	3,086	80	80	80
Current Assets		68,957	86,692	83,333	82,889	96,360
Stocks		2,425	2,819	3,556	4,478	5,278
Debtors		4,510	11,841	10,393	11,007	12,899
Cash		58,358	67,394	62,428	60,448	71,227
Other		3,664	4,638	6,956	6,956	6,956
Current Liabilities		(26,445)	(32,802)	(42,833)	(40,608)	(43,950)
Creditors		(17,358)	(24,446)	(29,659)	(27,434)	(30,776)
Short term borrowings		(9,087)	(8,356)	(13,174)	(13,174)	(13,174)
Long Term Liabilities		(8,667)	(26,420)	(28,135)	(28,136)	(28,138)
Long term borrowings		(3,757)	(3,500)	(2,359)	(2,359)	(2,359)
Other long term liabilities		(4,910)	(22,920)	(25,776)	(25,777)	(25,779)
Net Assets		111,487	132,637	147,245	153,942	165,334
CASH FLOW						
Operating Cash Flow		(19,915)	1,759	10,659	16,766	22,116
Net Interest		(29)	(299)	(38)	(1,071)	(1,031)
Tax		(1,909)	(561)	(475)	(872)	(889)
Capex		(1,893)	(2,432)	(7,577)	(12,053)	(9,416)
Acquisitions/disposals		0	1,202	(12,196)	(4,750)	0
Financing		234	123	231	0	0
Dividends		0	0	0	0	0
Other		157	0	(1,700)	0	0
Net Cash Flow		(23,355)	(208)	(11,096)	(1,980)	10,779
Opening net debt/(cash)		(81,775)	(57,750)	(58,545)	(49,902)	(47,922)
HP finance leases initiated		0	0	0	0	0
Exchange rate movements		(272)	(510)	531	0	0
Other		(398)	1,513	1,922	0	0
Closing net debt/(cash)		(57,750)	(58,545)	(49,902)	(47,922)	(58,701)

Source: Edison Investment Research, company accounts

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