

Evotec

Scientific publication

A potential game changer

Last week's paper in the journal *Cell* indicates Evotec's ambition with its CureX collaborations. Written by Evotec's collaborators at Harvard, it describes the protein Betatrophin, which could lead to therapies that slow or even reverse disease progression in diabetics. Development is at an early stage, but data were sufficiently compelling for a \$200-300m per product deal with Janssen to be signed in July 2012. Evotec has two CureX alliances (CureBeta, CureNephron), with more expected that could result in more deals similar to the one with Janssen in the CureBeta project.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/11	80.1	7.5	5.6	0.0	47.3	N/A
12/12	87.3	1.3	0.4	0.0	N/A	N/A
12/13e	97.2	6.8	5.0	0.0	53.0	N/A
12/14e	107.9	10.7	8.2	0.0	32.3	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

CureBeta promises a major advance in diabetes

Evotec's collaborators at Harvard University had a [paper](#) published in *Cell*, which describes the identification of the protein Betatrophin, which was able to stimulate β cell regeneration in mice pancreases and improve glucose tolerance. This research formed the basis of the collaboration between Evotec and Harvard to create CureBeta. The project's goal is to develop a cure for diabetes, and this paper suggests that, at the very least, a way of slowing the disease has been found.

Value of last year's Janssen deal explained

In July 2012, the potential of therapies based on Betatrophin was so impressive that Janssen (J&J) formed a strategic alliance with Evotec/Harvard, and could pay milestones of \$200-300m per product plus royalties. The value of the deal was very high for a development programme at such an early stage, with products unlikely to reach the market before 2020, but understandable given the scientific data.

New CureX initiatives and alliances expected

The CureX projects form the cornerstone of EVT Innovate (part of Action Plan 2016). Evotec has another collaboration with Harvard for CureNephron to develop treatments for chronic kidney disease and plans to form more CureX programmes. We assume these will target the level of therapeutic breakthrough promised by CureBeta and that more deals similar to the one with Janssen will be signed.

Valuation: DCF valuation of €438m

We have raised our valuation by €8m to €438m following small changes to earnings estimates (adj. EPS increased in FY13 by 0.1c to 5.0c). Evotec's shares have risen by 15% since the announcement regarding the *Cell* paper, but there still remains significant upside. The company recently reported the extension of its Genentech alliance and formed an academic collaboration with the Dana-Faber Cancer Institute, and we believe Evotec will probably raise its financial guidance for FY13.

Pharma & biotech

30 April 2013

Price €2.65

Market cap €314m

Net cash (€m) as at end Dec 2012 46.8

Shares in issue 118.5m

Free float 70%

Code EVT

Primary exchange Frankfurt

Secondary exchange OTC

Share price performance



%	1m	3m	12m
Abs	17.3	(5.4)	4.0
Rel (local)	16.1	(5.7)	(10.2)

52-week high/low €3.03 €1.95

Business description

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, the UK and US. It has two partnered products, EVT302 and DiaPep277, in late-stage clinical trials.

Next events

Q113 14 May 2013

AGM 12 June 2013

Q213 8 August 2013

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Exhibit 1: Financial summary

	€'000s	2010	2011	2012	2013e	2014e	2015e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		55,262	80,128	87,265	97,241	107,940	119,854
Cost of Sales		(30,916)	(45,143)	(56,242)	(62,580)	(67,926)	(74,327)
Gross Profit		24,346	34,985	31,023	34,662	40,014	45,527
EBITDA		6,480	11,971	9,119	14,613	18,682	23,030
Operating Profit (before GW and except.)		2,387	7,467	3,071	8,057	11,925	16,112
Intangible Amortisation		(672)	(1,703)	(2,768)	(3,149)	(3,009)	(2,915)
Other		113	(3,321)	(3,311)	0	0	0
Exceptionals		0	(557)	(3,505)	0	0	0
Operating Profit		1,715	5,207	(3,202)	4,908	8,916	13,196
Net Interest		(625)	(1,445)	(1,204)	(1,282)	(1,218)	(1,106)
Other		2,777	1,494	(608)	0	0	0
Profit Before Tax (norm)		4,539	7,516	1,259	6,775	10,707	15,005
Profit Before Tax (FRS 3)		3,867	5,256	(5,014)	3,626	7,698	12,090
Tax		(676)	(1,153)	(793)	(875)	(971)	(1,079)
Deferred tax		(206)	2,548	8,285	(0)	(0)	(0)
Profit After Tax (norm)		3,863	6,363	466	5,900	9,735	13,927
Profit After Tax (FRS 3)		2,985	6,651	2,478	2,751	6,726	11,011
Average Number of Shares Outstanding (m)		109.0	116.0	117.3	118.5	118.5	118.5
EPS - normalised (c)		3.8	5.6	0.4	5.0	8.2	11.7
EPS - FRS 3 (c)		3.0	5.8	2.1	2.3	5.7	9.3
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		44.1	43.7	35.6	35.6	37.1	38.0
EBITDA Margin (%)		11.7	14.9	10.4	15.0	17.3	19.2
Operating Margin (before GW and except.) (%)		4.3	9.3	3.5	8.3	11.0	13.4
BALANCE SHEET							
Fixed Assets		105,167	137,253	137,323	136,110	134,010	132,566
Intangible Assets		83,594	109,854	105,608	103,659	100,650	97,735
Tangible Assets		18,487	24,946	27,181	27,917	28,826	30,298
Other		3,086	2,453	4,534	4,534	4,534	4,534
Current Assets		86,692	80,960	88,104	92,423	104,359	118,871
Stocks		2,819	3,556	2,445	4,286	4,652	5,091
Debtors		11,841	10,393	15,053	15,985	17,744	19,702
Cash		67,394	62,428	64,159	65,705	75,516	87,631
Other		4,638	4,583	6,447	6,447	6,447	6,447
Current Liabilities		(32,802)	(42,833)	(33,882)	(34,938)	(38,747)	(41,054)
Creditors		(24,446)	(29,659)	(20,659)	(21,715)	(25,524)	(27,831)
Short term borrowings		(8,356)	(13,174)	(13,223)	(13,223)	(13,223)	(13,223)
Long Term Liabilities		(26,420)	(28,135)	(38,998)	(37,798)	(36,598)	(35,848)
Long term borrowings		(3,500)	(2,359)	(4,178)	(4,178)	(4,178)	(4,178)
Other long term liabilities		(22,920)	(25,776)	(34,820)	(33,620)	(32,420)	(31,670)
Net Assets		132,637	147,245	152,547	155,798	163,024	174,535
CASH FLOW							
Operating Cash Flow		1,759	10,659	12,175	12,240	19,622	22,115
Net Interest		(299)	(38)	111	(1,282)	(1,218)	(1,106)
Tax		(561)	(475)	(329)	(919)	(927)	(503)
Capex		(2,432)	(7,577)	(10,129)	(7,293)	(7,666)	(8,390)
Acquisitions/disposals		1,202	(12,196)	(3,000)	(1,200)	0	0
Financing		123	231	701	0	0	0
Dividends		0	0	0	0	0	0
Other		0	(1,700)	0	0	0	0
Net Cash Flow		(208)	(11,096)	(471)	1,546	9,811	12,115
Opening net debt/(cash)		(57,750)	(58,545)	(46,895)	(46,758)	(48,304)	(58,115)
HP finance leases initiated		0	0	0	0	0	0
Exchange rate movements		(510)	531	(953)	0	0	0
Other		1,513	(1,085)	1287	0	0	0
Closing net debt/(cash)		(58,545)	(46,895)	(46,758)	(48,304)	(58,115)	(70,230)

Source: Evotec, Edison Investment Research

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