

Recommendation:
BUY (BUY)

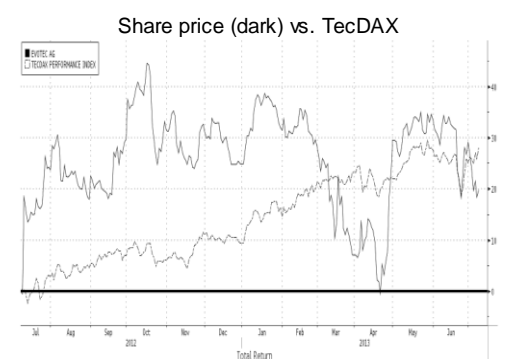
Risk:
Medium (Medium)

Price Target:
EUR 3.90 (3.90)

08 July 2013

Realigning discovery chemistry operations/ Milestone payment from Boehringer Ingelheim

- Evotec will close its Chemistry Operations in Thane, India. All chemistry efforts will now be performed at its Abingdon (UK) facility, addressing the increasing requirement to operate closer to the principal R&D laboratories of company's major customers. All project work in Thane will be finished at the end of September and Evotec (India) Private Ltd will be wound down from then.
- 120 people will have to leave the company and Evotec will take a one-time impairment charge of ~EUR 4m (which includes all the costs related to realignment) in Q3/13. According to management, the realignment should provide more efficient utilisation of UK chemistry resources and capabilities and also realise some cost savings. For the time being it is difficult to quantify the potential cost savings.
- Apart from this event, Evotec also announced that its research alliance with Boehringer Ingelheim has reached a milestone in June for the transition of a pain molecule into pre-clinical development. The milestone triggered revenues of EUR 1.5m to Evotec, which will contribute to the revenues in 2Q/13.
- Evotec confirmed its 2013 guidance. Revenues are expected in the range of EUR 90-100m. Operating result before impairment and changes in contingent consideration, for 2013 is expected to improve compared to 2012.
- Given the impairment announced, we lowered our EBIT estimate for 2013 to EUR 4.5m (prev.: EUR 8.5m).
- We leave our PT at EUR 3.90 unchanged and confirm our BUY recommendation.



Source: CBS Research AG, Bloomberg

Change	2012		2013E		2014E	
	new	old	new	old	new	old
Revenue	-	87.3	-	98.6	-	111.4
EBIT	-	-3.2	4.5	8.5	-	13.8
EPS	-	0.02	0.04	0.06	-	0.11

www.evotec.com
WKN: 566480
Reuters: EVTG.DE

Sector: Biotechnology
DE0005664809
Bloomberg: EVT GY

Short company profile

Evotec is a drug discovery alliance and development partnership company focused on rapidly progressing innovative product approaches with leading pharmaceutical and biotechnology companies.

Share data:

Share price (last closing price, EUR):	2.49
Shares outstanding (m):	115.60
Market capitalisation (EURm):	287.61
Enterprise value (EURm):	242.23
Ø daily trading volume (3 m., no. of shares):	394,001

Performance data:

High 52 weeks (EUR):	3.07
Low 52 weeks (EUR):	2.06
Absolute performance (12 months)	0.20
Relative performance: (vs. TecDAX)	
1 month	-10.4%
3 months	2.7%
6 months	-18.6%
12 months	-6.4%

Shareholders:

Roland Oetker/ROI	13.5%
TVM V Life Science Ventures	10.5%
Free float	76.0%

Financial calendar:

2Q/13 Figures 08 August 2013

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Y/E 31.12., EUR m	2009	2010	2011	2012	2013E	2014E	2015E
Revenues	42.7	55.3	80.1	87.3	98.6	111.4	126.4
Gross profit	18.4	24.3	35.0	31.0	40.4	53.5	58.2
EBITDA	-38.2	6.5	11.4	5.6	14.9	22.5	22.9
EBIT	-42.3	1.7	5.2	-3.2	4.5	13.8	14.1
Net income/loss	-45.5	3.0	6.7	2.5	4.2	12.5	13.0
EPS	-0.43	0.03	0.06	0.02	0.04	0.11	0.11
CPS	-0.20	0.00	0.07	0.07	0.15	0.15	0.00
Gross margin	43.2%	44.1%	43.7%	35.6%	41.0%	48.0%	46.0%
EBITDA margin	-89.6%	11.7%	14.2%	6.4%	15.1%	20.2%	18.1%
EBIT margin	-99.1%	3.1%	6.5%	-3.7%	4.5%	12.4%	11.2%
EV/Sales	5.7	4.4	3.0	2.8	2.5	2.2	1.9

Source: Evotec AG; CBS Research AG

Expected newsflow

Overview of the expected newsflow

Event	Timeline
Commercialization of one Cure X initiative	2H/2013E
Initiate 3-5 more Cure X/ Target X programmes	2H/2013E
Long-term deals with big/mid-size Pharma and Biotech	2H/2013E
At least one new integrated technology disease alliance	2H/2013E
Operational start of new compound management facility in East Coast.	2H/2013E
Start min. three clinical trials within existing alliances	Within 18 months
DiaPep277: Results from 2nd Phase III trial (recruitment closed)	End of 2014E
EVT 302 (Alzheimer's disease): Phase II trial results	2015E
EVT 100 series (Depression): Start of Phase II trial	2013/2014E

Source: Evotec AG; CBS Research

Pipeline overview**Diabetes**

Molecules	Indication (mechanism)	Partner	Status	Next milestone	Commercials
DiaPep277	Type 1 diabetes (immunomodulation)	TEVA/ Andromeda	2nd Phase III recruitment closed	Final Phase III data	~EUR 40m milestones, royalties; potential market ~EUR 500m
EVT770	Type 1 and 2 diabetes (beta cell regeneration)	MedImmune/ AstraZenec	Pre-clinical	ND	High margin research payments EUR 237m milestones/ product;
ALM	Type 1 and 2 diabetes (beta cell regeneration)	MedImmune/ AstraZenec	Pre-clinical	ND	High margin research payments EUR 18m milestones/ product;
EVT070	Type 1 and 2 diabetes (beta cell regeneration)	Boehringer Ingelheim	Pre-clinical	ND	High margin research payments EUR 254m milestones
CureBeta CB 002 /1 +	Type 1 and 2 diabetes (beta cell regeneration)	Janssen	Pre-clinical	ND	High margin research payments USD 300m milestones/ product;

Neurology

Molecules	Indication (mechanism)	Partner	Status	Next milestone	Commercials
EVT302	Alzheimer's Disease (MAO-B)	Roche	Phase IIb	Phase II completion, Phase III start	USD 820m milestones; Significant royalties
EVT100 series	Depression (NR2B)	Janssen	Phase II/ pre-clinical	Confirmation of pre-clinical study; Phase III	USD 60m milestones; Significant royalties
EVT201	Insomnia	Jingxin	Phase II	Start clinical trials	Milestones; Royalties
Various	Huntington Disease	CHDI	Target validation	NA	Research payments
ASIC family	Multiple sclerosis	BMBF/ undisclosed	Lead generation	Lead status	ND

Pain and inflammation

Molecules	Indication (mechanism)	Partner	Status	Next milestone	Commercials
EVT401	Inflammation (P2X7 inhibitor)	Conba Group	Phase I/II	Phase II start	~EUR 60m milestones; Royalties
Various	Endometriosis	Bayer	Pre-clinical	Pre-clinical candidate	Upfront EUR 12m; total value up to ~EUR 580m; Royalties
Various	Various / Pain	Boehringer Ingelheim	Pre-clinical	Phase I start	Research payments; Milestones; Royalties
Various	Inflammation	UCB	Pre-clinical	Phase I start	High margin research payments EUR 183m milestones/ product
Undisclosed	Various/Pain	Novartis	Pre-clinical	Successful PoC	Research payments; Milestones; Royalties

Oncology

Molecules	Indication (mechanism)	Partner	Status	Next milestone	Commercials
DG3173	Acromegaly / NET	Aspireo	Phase IIa	Phase II data in acromegaly	Consulting fees; Royalties
Various	Various	Boehringer Ingelheim	Pre-clinical	Phase I, First in man	Research payments; Milestones; Royalties
Pathway screen	Cbl-B pathway	Apeiron	Pre-clinical	Pharma partnership	Shared research costs; Milestones; Royalties
Epigenomics targets	Various	Belfer Institute	Pre-clinical	Pharma partnership	NA

Source: Evotec AG; CBS Research

Research



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Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
08 July 2013	BUY (Company Update)	EUR 2.49	EUR 3.90
05 June 2013	BUY (Company Update)	EUR 2.75	EUR 3.90
26 March 2013	BUY (Company Update)	EUR 2.36	EUR 3.90
18 December 2012	BUY (Company Update)	EUR 2.73	EUR 3.90

08 November 2012	BUY (Company Update)	EUR 2.82	EUR 3.90
26 October 2012	BUY (Company Update)	EUR 2.69	EUR 3.90
28 September 2012	BUY (Company Update)	EUR 2.71	EUR 3.90
11 May 2012	BUY (Company Update)	EUR 2.37	EUR 3.70
20 September 2012	BUY (Company Update)	EUR 2.67	EUR 3.90
08 August 2012	BUY (Company Update)	EUR 2.69	EUR 3.80

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