Evotec AG

Close Brothers Seydler Research AG

Recommendation:	Risk:	Price Target:
BUY (BUY)	Medium (Medium)	EUR 3.90 (3.90)

08 August 2013

1H/2013 figures

More to come in 2H/2013

- Revenues for 1H/13 decreased to EUR 36.7m (2012: EUR 42.0m; YoY -13%). Excluding milestones, upfronts and licences, Evotec's revenues in 1H/13 would have increased by 6% compared to prior year. Due to the comparatively low milestone revenues (1H/13: EUR 3.4m vs 1H/12: EUR 10.7m), the operating loss for the first half of 2013 totalled EUR 4.4m. Liquidity remains strong and at the end of June 2013 amounted to EUR 56.1m.

- Company's operating result may vary significantly between quarters as a result of the timing of performance-based milestone payments and partnering events which are challenging to predict.

- Evotec confirmed its guidance and expects to achieve increased full-year profitability over prior year (before impairment and changes in contingent considerations, if any). Group revenues are expected to grow to EUR 90m-100m.

- On this basis, gross margins in 2013 are expected to improve slightly on those achieved in 2012. However, quarterly margins will continue to be volatile, as they are dependent upon the timing of milestone payments. R&D in 2013E is expected to increase to ~EUR 10m.

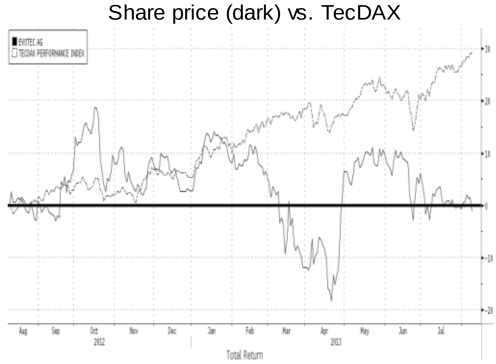
- For the rest of the year 2013 milestone and upfront payments significantly contribute to the top line of the company. Given that these revenues are better in terms of margins we expect a noticeable profitability improvement in 2H/13. We think that particularly the last quarter should be strong.

- We leave our PT at EUR 3.90 unchanged and confirm our BUY recommendation.

Y/E 31.12., EUR m	2009	2010	2011	2012	2013E	2014E
Revenues	42.7	55.3	80.1	87.3	98.6	111.4
Gross profit	18.4	24.3	35.0	31.0	40.4	53.5
EBITDA	-38.2	6.5	11.4	5.6	14.9	22.5
EBIT	-42.3	1.7	5.2	-3.2	4.5	13.8
Net income/loss	-45.5	3.0	6.7	2.5	4.2	12.5
EPS	-0.43	0.03	0.06	0.02	0.04	0.11
Gross margin	43.2%	44.1%	43.7%	35.6%	41.0%	48.0%
EBITDA margin	-89.6%	11.7%	14.2%	6.4%	15.1%	20.2%
EBIT margin	-99.1%	3.1%	6.5%	-3.7%	4.5%	12.4%
EV/Sales	5.9	4.6	3.2	2.9	2.6	2.3

Source: Evotec AG; CBS Research AG

Share price (dark) vs. TecDAX



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	-	13.8
EPS	-	0.02		0.04	-	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):	**2.59**
Shares outstanding (m):	115.60
Market capitalisation (EURm):	299.75
Enterprise value (EURm):	254.23
Ø daily trading volume (3 m., no. of shares):	297,273

Performance data:

High 52 weeks (EUR):	3.07
Low 52 weeks (EUR):	2.06
Absolute performance (12 months)	-0.01
Relative performance: (vs. TecDAX)	
1 month	-5.4%
3 months	-15.1%
6 months	-20.0%
12 months	-23.5%

Shareholders:

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

Financial calendar:

3Q/13 Figures — 12 November 2013

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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.	3Q/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	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	Phase I	EUR 6m upfront High margin research payments EUR 237m milestones/ product;
ALM	Type 1 and 2 diabetes (beta cell regeneration)	MedImmune/ AstraZenec	Pre-clinical	Phase I	EUR 2m upfront; High margin research payments EUR 183m milestones/ product;
EVT070	Type 1 and 2 diabetes (beta cell regeneration)	Boehringer Ingelheim	Advanced Lead	PDC	EUR 7m upfront; High margin research payments EUR 237m milestones
Various CureBeta	Type 1 and 2 diabetes (beta cell regeneration)	Janssen	Target ID/ validation	ND	EUR 8m upfront; High margin research payments USD 300m milestones/ product; significant royalties
Various CureNephro	Chronic Kidney Disease	Harvard	Target ID/ validation	Pharma partnership	ND

Neurology

Molecules	Indication (mechanism)	Partner	Status	Next milestone	Commercials
EVT302	Alzheimer's Disease (MAO-B)	Roche	Phase IIb	Phase II completion, Phase III start	EUR 12m upfront; USD 820m milestones; Significant royalties
EVT100 series	Depression (NR2B)	Janssen	Phase II/ pre-clinical	Confirmation of pre-clinical study; Phase I/II	EUR 2m upfront; USD 160m 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 inhibiton)	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	Undisclosed upfront; 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	ND

Source: Evotec AG; CBS Research

Research

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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%.

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

Date	Recommendation	Price at change date	Price target
08 August 2013	BUY (Company Update)	EUR 2.59	EUR 3.90
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

Risk-scaling System:
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LOW: The volatility is expected to be lower than the volatility of the benchmark
MEDIUM: The volatility is expected to be equal to the volatility of the benchmark
HIGH: The volatility is expected to be higher than the volatility of the benchmark

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