Evotec AG

Close Brothers Seydler Research AG

Recommendation:	Risk:	Price Target:
BUY (BUY)	Medium (Medium)	EUR 4.50 (4.00)

28 October 2013

Milestone payment

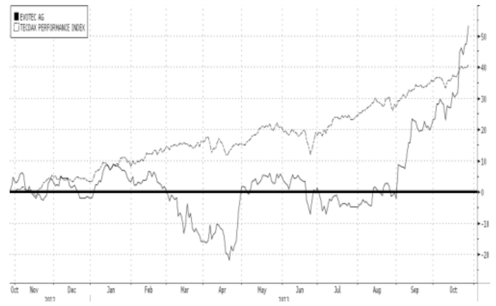
First milestones in multi-target deal with UCB

- Evotec announced that it has achieved first milestones in its multi-year, multi-target integrated drug discovery collaboration with UCB in the field of immunology. The milestones were achieved upon the progression of certain projects into hit-to-lead and into lead optimisation. No financial details were disclosed.
- Evotec and UCB entered into this collaboration in October 2011. Under the terms of the collaboration, Evotec receives research payments, milestones based on achieving various pre-clinical, clinical and sales goals and royalties on final product sales.
- The first milestones from the collaboration with UCB increases the probability that further milestones might be achieved considering the multi-target nature of the alliance.
- In addition, Evotec recently signed an agreement with AstraZeneca to explore compounds and targets with novel mechanisms that have disease-modifying potential for the treatment of chronic kidney disease. This agreement triggered an undisclosed upfront payment as well as pre-clinical, clinical and regulatory milestones.
- The upfront payment from AstraZeneca should be recognized over a certain period (3-5 years), therefore the top line contribution for FY 2013E is likely to be insignificant.
- For the rest of the quarter, we expect Evotec to reach other milestone payments. However, these events are challenging to predict in terms of timing. Milestone/upfront payments in 2H/13 should significantly contribute to the gross margin, profitability as well as cash flow metrics in FY 2013E.
- We increase our PT from EUR 4.00 to EUR 4.50 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	94.2	106.5
Gross profit	18.4	24.3	35.0	31.0	39.1	51.1
EBITDA	-38.2	6.5	11.4	5.6	14.4	21.7
EBIT	-42.3	1.7	5.2	-3.2	4.0	13.0
Net income/loss	-45.5	3.0	6.7	2.5	3.8	12.0
EPS	-0.43	0.03	0.06	0.02	0.03	0.09
Gross margin	43.2%	44.1%	43.7%	35.6%	41.5%	48.0%
EBITDA margin	-89.6%	11.7%	14.2%	6.4%	15.3%	20.4%
EBIT margin	-99.1%	3.1%	6.5%	-3.7%	4.2%	12.2%
EV/Sales	9.6	7.4	5.1	4.7	4.3	3.8

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	-	94.2	-	106.5
EBIT	-	-3.2	-	4.0	-	13.0
EPS*	-	0.02	-	0.03	-	0.09

www.evotec.com	Sector: Biotechnology
WKN: 566480	DE0005664809
Reuters: EVTG.DE	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):	**3.95**
Shares outstanding (m):	130.13
Market capitalisation (EURm):	513.38
Enterprise value (EURm):	408.71
Ø daily trading volume (3 m., no. of shares):	1,061,575

Performance data:

High 52 weeks (EUR):	4.15
Low 52 weeks (EUR):	2.06
Absolute performance (12 months)	0.54
Relative performance: (vs. TecDAX)	
1 month	22.6%
3 months	41.8%
6 months	35.0%
12 months	9.5%

Shareholders:

Roland Oetker/ROI	<15%
TVM V Life Science Ventures	<10%
BVF	<10%
DAWN	>3%
Free float	>65%

Financial calendar:

3Q/13 figures	12 November 2013

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Close Brothers Seydler Research AG uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 12 months:

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
28 October 2013	BUY (Company Update)	EUR 3.95	EUR 4.50
15 October 2013	BUY (Company Update)	EUR 3.40	EUR 4.00
02 September 2013	BUY (Company Update)	EUR 2.62	EUR 4.00
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

Risk-scaling System:
Close Brothers Seydler Research AG uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 12 months:

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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