

Recommendation:
BUY (BUY)

Risk:
Medium (Medium)

Price Target:
EUR 4.50 (4.50)

13 November 2013

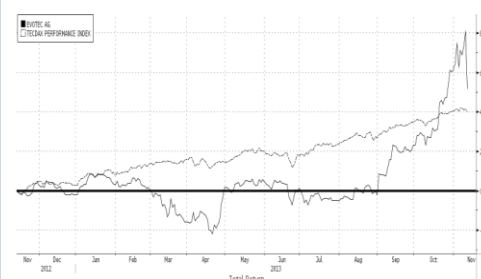
9M/2013 figures

- Revenues for 9M/13 decreased to EUR 60.3m (PY: EUR 64.2m; -6%), while the base revenues rose by 3% in 9M/13. In 3Q/13, Evotec reported revenues of EUR 23.6m (PY: EUR 22.2m; +7%). The operating loss for 9M/13 amounted to EUR 4.2m, mainly due to the impairment of tangible assets (EUR 1.1 m) and the impairment of goodwill (EUR 1.9m) as a consequence of the decision to cease operations in India. Operating result for 3Q/13 was positive at EUR 0.2m. Liquidity at the end of September 2013 amounted to EUR 84.7m.
- The management has confirmed its 2013 guidance. Revenues are expected to be within EUR 90-100m. Gross margins in 2013 should improve slightly compared to previous year. R&D expenses are expected to be ~EUR 10m in 2013. Operating result before impairment and changes in contingent consideration is expected to improve compared to prior year. The company increases its liquidity guidance to >EUR 90m by the end of 2013, excluding any potential cash outflow for M&A or similar transactions due to the capital inflow to Evotec of EUR 30m.
- While the published quarterly figures look unimpressive, it should be mentioned that the operating result varies significantly between quarters as the timing of milestone payments and partnering events is challenging to predict. We have slightly reduced our 2013 estimates and expect that the full year revenues will likely be at the lower end of the guidance. Despite trimmed estimates, we believe that the stock has a significant long term potential. In the third quarter and after reporting date the company made a significant advance in EVT Innovate (see next page). Evotec has considerably expanded its pipeline, which enhances the long-term potential of the company, in our view. Furthermore, in the short term we expect significant clinical data points to support the share price, should they will be positive.
- We leave our PT at 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	37.5	51.1
EBITDA	-38.2	6.5	11.4	5.6	14.5	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	3.9	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%	39.8%	48.0%
EBITDA margin	-89.6%	11.7%	14.2%	6.4%	15.4%	20.4%
EBIT margin	-99.1%	3.1%	6.5%	-3.7%	4.3%	12.2%
EV/Sales	9.3	7.2	5.0	4.5	4.2	3.7

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):	4.06
Shares outstanding (m):	130.13
Market capitalisation (EURm):	528.48
Enterprise value (EURm):	396.95
Ø daily trading volume (3 m., no. of shares):	1,854,421

Performance data:

High 52 weeks (EUR):	5.08
Low 52 weeks (EUR):	2.06
Absolute performance (12 months)	0.53
Relative performance: (vs. TecDAX)	
1 month	16.4%
3 months	38.4%
6 months	26.3%
12 months	9.3%

Shareholders:

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

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Newsflow

In 3Q/13 and after the reporting date Evotec made a significant advance in EVT Innovative:

- 1) **CureMN:** Third collaboration with the Harvard Stem Cell Institute to identify compounds that prevent or slow down the loss of motor neurons, which is characteristic of the human disease amyotrophic lateral sclerosis (“ALS”).
- 2) **TargetEEM (Enteroendocrine Mechanisms):** The second research collaboration with Doug Melton laboratory is a comprehensive screening effort by Harvard and Evotec designed to systematically search for novel pathways and targets that have the potential to address key pathophysiological mechanisms involved in insulin resistance and energy handling.
- 3) An agreement with AstraZeneca to explore compounds and targets with novel mechanisms that have disease modifying potential for the treatment of chronic kidney diseases. The agreement triggered an undisclosed upfront payment, milestones and royalty payments related to commercialization.
- 4) **TargetAD (Alzheimer’s disease):** Collaboration with the Johnson & Johnson Innovation Center to identify new drug targets for discovery of novel treatment approaches to Alzheimer’s disease. Janssen (member of J&J) will fund target discovery research via a combination of defined research payments and progress-related milestones over the next three years. Janssen will have the opportunity to internalise selected targets and therapeutic candidates from the TargetAD database and progress them into pre-clinical and clinical development. Janssen will reimburse up to USD 10m in FTE-based research costs and make pre-clinical, clinical, regulatory and commercial payments up to a maximum of between ~USD 125m to USD 145m per programme upon achieving agreed-upon milestones. In addition, Evotec will receive royalties on future sales of any products that may result from the alliance.

Significant clinical data points ahead

In the near future Evotec expects the following clinical data news:

- 1) Results of a second pivotal trial with DiaPep277 are expected in late 2014.
- 2) Results from EVT302 (by Roche) clinical trial with patients with moderate-severity Alzheimer’s disease are expected in early 2015.
- 3) From the license agreement with Janssen for its NR2B subtype selective NMDA-antagonist portfolio for the development against diseases in the field of depression, Evotec expects to receive a significant milestone before end of 2013. The company expects that Janssen will initiate Phase II clinical trials for the treatment of depression early in 2014.

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/ AstraZeneca	Lead	Phase I	EUR 5m upfront, high margin research payments EUR 254m milestones/ product, EUR 2m upfront; High margin research payments EUR 183m milestones/ product;
ALM	Type 1 and 2 diabetes (beta cell regeneration)	MedImmune/ AstraZeneca	Discovery	Phase I	EUR 7m upfront; High margin research payments EUR 237m milestones, royalties
EVT070	Type 1 and 2 diabetes (beta cell regeneration)	Boehringer Ingelheim	Lead	PDC	EUR 8m upfront; High margin research payments USD 300m milestones/ product; TBD
CureBeta	Type 1 and 2 diabetes (beta cell regeneration)	Janssen	Target ID/ validation	Validated Target	TBD
CureNephron	Chronic Kidney Disease	Harvard	Discovery	Pharma partnership	TBD
TargetEEM	Type 1 and 2 diabetes (enteroendocrine mechanisms)	Harvard	Discovery	Pharma partnership	TBD
Various	Kidney Diseases	AstraZeneca	Discovery	ND	Undisclosed upfront, high margin research payments milestones/product, royalties

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	Pre-clinical	Confirmation of pre-clinical study; Phase VII	EUR 2m upfront; USD 160m milestones, significant royalties
EVT201	Insomnia	Jingxin	Phase II	Start clinical trials	Milestones, royalties
Various	Huntington Disease	CHDI	Target validation	ND	Research payments
Not disclosed	Neurodegeneration	Genentech	Pre-clinical	ND	Research payments
Not disclosed	Neurodegeneration	ONO	Discovery	ND	Up to USD 10m research payments, ~USD 125-145m milestones, royalties
TargetAD	Alzheimer's Disease (Novel MoA)	J&J Innovation	Discovery	ND	
TargetASIC	Multiple sclerosis	BMBF/ undisclosed	Lead generation	Lead status	Co-funded
CureMN	Amyotrophic Lateral Sclerosis (ALS)	Harvard	Discovery	Pharma Partnership	TBD

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	Undisclosed upfront; Research payments; Milestones; Royalties
Various	Inflammation	UCB	Pre-clinical	Preclinical	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
Somatropim (DG3173)	Acromegaly / NET	Aspireo	Phase IIa	Pharma partnership	Consulting fees; Royalties
Various	Various	Boehringer Ingelheim	Phase I	Various	Research payments; Milestones; Royalties
TargetCbl-b	Various (immunotherapy)	Apeiron	Pre-clinical	Pharma partnership	Shared research costs; Milestones; Royalties
TargetKDM	Various (Epigenetic targets)	Belfer Institute	Pre-clinical	Pharma partnership	ND
TargetFGFR3	Bladder cancer	Internal	H2L	ND	ND
TargetIDH	Various (Epigenetic targets)	Internal	H2L	ND	ND

Source: Evotec AG; CBS Research AG

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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%.

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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
13 November 2013	BUY (Company Update)	EUR 4.06	EUR 4.50
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

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MEDIUM: The volatility is expected to be equal to the volatility of the benchmark

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