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Reason for Report:

Company Update

Changes	Previous	Current
Rating	--	Neutral
Price Tgt	--	€1.31
FY09E Rev (€m)	--	42.5
FY10E Rev (€m)	--	35.6
FY09E EPS (€)	--	(0.35)
FY10E EPS (€)	--	(0.17)

Price:	€1.91
52 Week High:	€2.45
52 Week Low:	€0.54
12-Month Price Target:	€1.31

<i>SOP-NPV Analysis</i>	
Shares Out (mil):	108.8
Market Cap. (mil):	€207.8
Market Cap. (\$m):	\$289.3
Avg Daily Vol (000):	691
Cash Per Share:	€0.49
Fiscal Year End:	Dec

Stock symbol/code:

Bloomberg:	EVT GR
Thomson Financial:	EVT-FF
Reuters:	EVTG.DE

Rev (€m)	2008A	2009E	2010E
H1	14.5A	18.7A	17.8E
H2	25.1A	23.8E	17.8E
FY	39.6A	42.5E	35.6E

FY RM	5.2x	4.9x	5.8x
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EPS (€)	2008A	2009E	2010E
H1	(0.31)A	(0.28)A	(0.10)E
H2	(0.55)A	(0.08)E	(0.07)E
FY	(0.82)A	(0.35)E	(0.17)E

FY P/E	NM	NM	NM
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Net Cash (€m)	2008A	2009E	2010E
H1	101.0A	72.7E	52.5E
H2	84.1A	63.1E	45.6E
FY	84.1A	63.1E	45.6E

Evotec Neutral

EVT GR - €1.9

Signs drug discovery alliance with Vifor Pharma

CONCLUSION:

The drug discovery alliance with Vifor Pharma announced today, following hot on the heels of the CHDI collaboration (Jan '10) and BI deal extension (Nov '09), make us increasingly comfortable that Evotec can meet its goal of reaching €60m of revenues by 2012. It is important to note that our €1.31 PT is based only on valuing the existing Alliances Business, EVT101 and cash.

- **Drug discovery alliance signed with Vifor Pharma...** Evotec has announced a drug discovery alliance with Vifor Pharma, a specialty pharma company of the Galencia Group, to identify a preclinical candidate for the treatment of anaemia. Evotec's involvement is to utilise its integrated drug discovery capabilities to progress novel small molecules from discovery into lead optimisation.
- **...worth in excess of €5.5m.** Importantly, through this collaboration, Evotec will leverage its European and Indian research sites covering biology, medicinal chemistry, pharmacology. Although the full deal terms remain confidential, the programme includes at least €5.5m of research payments spread over 2.5 years. Evotec is also entitled to downstream milestones and royalties. We understand that, much like the CHDI (Huntington's disease) and BI (multi-target) deals, this is the kind of strategic alliances that Evotec will be focusing on going forward. Along with Roche and Novartis, Evotec's portfolio of such collaborations is getting stronger, improving quality of revenues over the next few years. Evotec expects to sign further such deals during 2010.
- **Vifor deal should be incremental to our revenue forecasts over the next three years.** Our current revenue forecast of €32m in FY10 factors in only research fees from Evotec's existing alliances, and does not factor in any success based milestones (which are difficult to forecast). However, the recent flurry of deals suggests the company is on track to achieve its financial target (including both research fees and milestones) for alliance revenues approaching €50m in 2010 and >€60m by 2011/12. We anticipate updated revenue and cashflow guidance at Evotec's FY09 analyst call (25 Mar '09).
- **Our SOP-NPV derived PT is €1.31.** It is important to note that we are currently only valuing the existing Alliances Business (1.7x FY09e revenues), EVT101 and cash. Our cautious stance and Neutral rating have been driven by the need to see sustained deal flow and revenue growth in the Alliances Business.

INVESTMENT RECOMMENDATION:

We have a Neutral rating and NPV-derived PT of €1.31.

RISKS TO ACHIEVEMENT OF TARGET PRICE:

Failure to partner programmes; failure of EVT101, failure of P2X7.

COMPANY DESCRIPTION:

Evotec is a biopharmaceutical company focused on CNS disorders, pain and cancer

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Company Description

Evotec discovers and develops small molecule therapies for Central Nervous System (CNS) disorders, pain and inflammation. The new CEO has implemented a major restructuring programme to refocus the pipeline, reduce cash burn and grow the alliances business. Lead compound EVT101, for treatment-resistant depression, is partnered with Roche in a \$300m deal and a Phase II proof-of-concept trial is now expected to start in early 2010. The second clinical programme EV401, a novel P2X7 antagonist, has successfully completed Phase I trials and could enter a Phase II study in rheumatoid arthritis in late 2010.

Investment Thesis

We remain encouraged by Evotec's continued efforts to rein in costs and rationalise its R&D portfolio. The restructuring addressed our key concerns about the company's high cash burn and unfocused development strategy. Furthermore, we view the closure of the US operations and EVT101 licensing deal with Roche as evidence of management's ability to execute a rapid turnaround. However, we maintain our Neutral rating until we see sustained evidence that Evotec can monetise its early-stage programmes and grow the discovery alliances business.

Potential catalysts

Catalyst	Impact	Risk	Timing
EVT101 - start of Phase II PoC in treatment-resistant depression	If started in Q1-10, headline data could be delivered mid-11	In our view, there is a low risk to the initiation of this clinical trial.	Q1-10
EVT103 - results of Phase I trial	This programme represents upside to our current valuation.	Negative data	Q1-10
EVT401 - potential start of Phase II development	This programme represents upside to our current valuation.	The main risk is timing of the initiation	2010?
New drug discovery alliances	This could offer upside to our forecasts and valuation	Partnership deals involve numerous third parties and the time lines are often outside of the hands of the biotech.	2010?
New strategic partnerships/licensing deals	This could offer upside to our forecasts and valuation	Partnership deals involve numerous third parties and the time lines are often outside of the hands of the biotech.	2010?

Source: Piper Jaffray

SOP-NPV valuation

Drug	Indication	Stage	Launch	Peak Sales (\$m)	Probability	rNPV (Em)	rNPV/share (E/share)
EVT101	Treatment-refractory depression	Phase II	2014	743	18%	63.6	0.58
Services						67.4	0.62
Other costs						-45.2	-0.42
Tax						-6.3	-0.06
Cash						63.1	0.58
Total NPV						142.3	1.31

Source: Piper Jaffray

Evotec
Historical Earnings and Projections

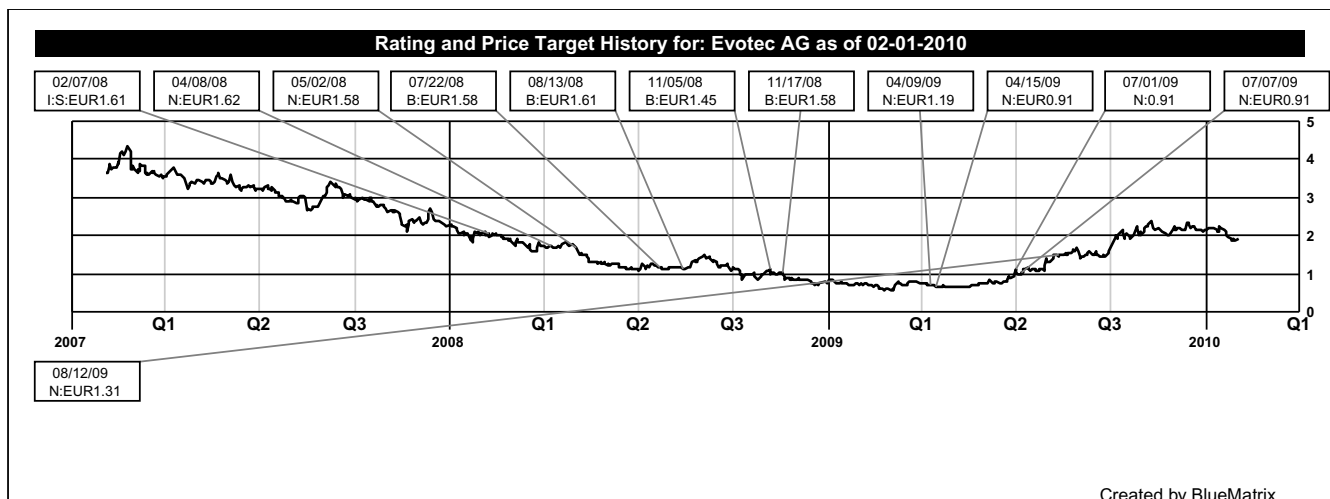
Profit and Loss													
Year end Dec. 31st (€m)	2006	H1-07A	H2-07A	2007A	H1-08	H2-08	2008	H1-09	H2-09E	2009E	H1-10E	H2-10E	2010E
Discovery Alliances business	84.7	28.5	25.9	54.4	14.5	25.1	39.6	17.6	22.0	39.6	16.0	16.0	32.0
EVT101 (Treatment-resistant depression)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1	1.8	2.9	1.8	1.8	3.6
Total revenue	84.7	28.5	25.9	54.4	14.5	25.1	39.6	18.7	23.8	42.5	17.8	17.8	35.6
COGS	54.1	22.1	18.8	40.9	10.9	11.1	22.0	11.7	13.1	25.9	12.8	12.8	25.6
Gross Profit	30.6	6.4	7.1	13.5	3.7	14.0	17.6	7.1	10.7	16.7	5.0	5.0	10.0
R&D	33.4	16.4	20.5	36.9	21.9	20.6	42.5	16.3	11.0	27.3	7.3	4.0	11.3
SG&A	29.0	9.9	13.6	23.5	8.5	12.0	20.5	9.2	8.3	17.4	9.2	9.1	18.3
Impairment of goodwill	6.6	0.0	5.8	5.8	0.0	20.3	20.3	6.6	0.0	0.0	0.0	0.0	0.0
Impairment of tangible assets	-0.6	0.0	2.7	2.7	0.0	7.3	7.3	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income/expense	1.6	0.9	1.2	2.1	1.1	1.3	2.4	-0.1	0.0	0.0	0.0	0.0	0.0
Restructuring expenses	0.6	0.0	0.4	0.4	0.1	0.0	0.1	4.1	0.0	4.1	0.0	0.0	0.0
Operating expenses	52.0	27.2	44.2	71.4	31.6	61.5	93.1	36.2	19.3	55.4	16.5	13.1	29.6
Other income	0.0	0.9	1.3	2.2	1.1	1.2	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Operating income (loss)	-21.4	-19.9	-35.8	-55.8	-26.9	-46.3	-73.2	-29.1	-8.6	-38.8	-11.5	-8.1	-19.6
Net finance income (expense)	0.7	0.8	0.8	1.6	1.1	1.1	2.1	0.1	0.3	0.7	0.3	0.2	0.5
Other non-operating income/expense	6.7	11.7	27.1	38.8	0.8	-5.7	-4.9	-1.4	0.0	0.0	0.0	0.0	0.0
Pre-tax profit (loss)	-14.0	-7.5	-7.9	-15.4	-25.0	-51.0	-76.0	-30.4	-8.2	-38.1	-11.2	-7.9	-19.1
Income tax expense	-0.8	0.0	0.4	0.4	0.3	1.6	1.9	0.2	0.0	0.2	0.0	0.0	0.0
Deferred tax benefit (expense)	0.0	0.0	4.6	4.6	-0.5	0.1	-0.4	0.2	0.0	0.0	0.0	0.0	0.0
Net profit (loss)	-14.8	-7.5	-3.7	-11.2	-25.9	-52.4	-78.3	-30.4	-8.2	-38.2	-11.2	-7.9	-19.1
No. of shares	66.4	69.8	73.9	71.8	83.7	95.2	95.2	108.8	108.8	108.8	109.8	109.8	109.8
Basic earnings (loss) per share	-22.4	-10.8	-5.0	-15.5	-30.9	-55.1	-82.2	-27.9	-7.6	-35.1	-10.2	-7.2	-17.4
Cash	78.7	72.4	93.7	93.7	101.0	84.1	84.1	72.7	63.1	63.1	52.5	45.6	45.6

Source: Evotec actuals, Piper Jaffray estimates

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			Count	Percent
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Analyst Certification — Sam Fazeli, Ph.D., Sr Research Analyst

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