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Related Companies:

Share Price:

**Evotec**  
**Neutral**

**(EVT GR - \$1.94)**

**European Biotechnology**

**Discovery Alliance Growth Underpins Strong Q1 performance.**

**CONCLUSION:**

Evotec has delivered a strong Q1 performance driven by 19% growth in Discovery Alliances revenues, improved gross margin, and substantially reduced operating expenditures. We do not forecast quarterly numbers; however, Evotec remains on track to achieve its 2010 revenue and liquidity guidance. Evotec reiterated its longer-term guidance for profitability by 2012 - we view the Q1 performance and recent alliances/deals as evidence that the company is making good progress towards this goal. The key pipeline update is that the EVT101 Ph.II trial in depression is expected to start within weeks.

- **Financials - discovery alliances growth underpins strong Q1.** Evotec has reported a strong Q1 performance with revenues +19% to €9.8m, gross margin of 37.9% (2009: 36.2%), and 93% reduction in operating loss to €1.5m (2009: €21.8m). We do not forecast quarterly numbers; however, the company appears on track to meet its guidance for 2010 revenues of €48-50m. Period-end liquidity, which includes cash, short term investments, auction rate securities, was €66.8m.
- **2010 guidance confirmed.** Evotec has maintained its 2010 guidance for 15% revenue growth before out-licensing income, based on a strong order book (€30m at end of March), expected new contracts/contract extensions, and research milestones. Operating expenditure is expected to be significantly lower (i.e. R&D ~€10m) following the restructuring in 2009. Year-end liquidity is expected to be >€64m.
- **Discovery alliances update - multi-year Genentech alliance signed.** Announced earlier this week, Evotec signed a multi-year (i.e. >3yr) drug discovery alliance with Genentech, with the aim of identifying novel therapeutics against undisclosed targets. The Genentech alliance, along with other recent deal flow (CHDI, Vifor Pharma, Cubist, Active Biotech) gives us increasing comfort that Evotec can achieve its longer term guidance for profitability in 2012.
- **Pipeline update - EVT101 Ph.II to start within weeks.** Evotec expects to start recruiting patients into the Ph.II proof-of-concept study in depression in Q2-10. This follows positive FDA feedback on Evotec's trial plans (see note of 10 Mar '10). As a reminder, if Roche exercises its buy-back option following positive Ph.II data (possible in H2-11), Evotec will receive a \$65m milestone payment.

**PRICE TARGET AND JUSTIFICATION:**

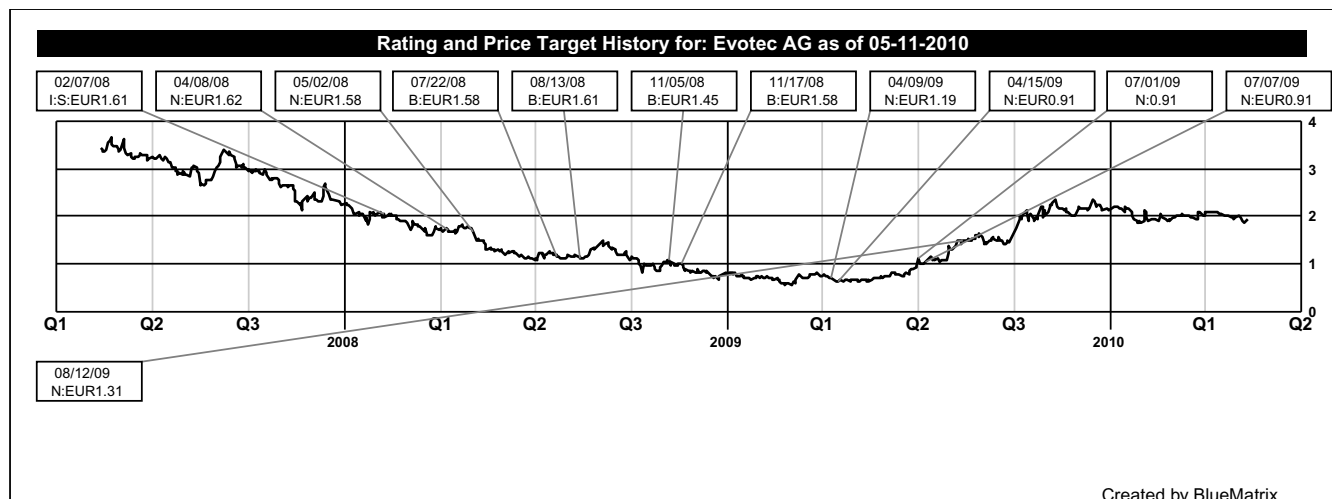
We have a Neutral rating and NPV-derived PT of €1.31 (see note of 25 March for details)

**RISKS TO ACHIEVEMENT OF TARGET PRICE:**

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

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T: Transferring Coverage

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	332	49.20	66	19.88
HOLD [N]	273	40.40	15	5.49
SELL [UW]	70	10.40	1	1.43

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### Analyst Certification — Sam Fazeli, Ph.D., Sr Research Analyst

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