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Related Companies:

Share Price:

**Evotec**  
**Neutral**

**(EVT GR - \$2.03)**

## European Biotechnology

### DeveloGen Adds Complementary Partnerships, Programmes and Technology

**CONCLUSION:** We view DeveloGen as a sensible acquisition that rounds out Evotec's drug discovery platform, adds a proprietary diabetes programme, and includes two major R&D alliances with significant upside potential. Evotec gains all this for €14m in shares, €2m transaction costs and a cash earnout that still allows Evotec to capture the majority (70%) of downstream alliance milestones. Finally, Evotec has achieved all this without impacting YE revenue and cash guidance. We are currently Neutral on Evotec (with a positive bias), viewing the strong 2009 financial performance and recent alliances/deals as evidence the company is making progress towards its goal of profitability by 2012.

- **Evotec acquires DeveloGen for €14m.** Evotec has acquired DeveloGen, a private German biotech focused on novel therapies for metabolic and endocrine disorders, with a specific focus on diabetes. The purchase price includes up to €14m in shares, of which €6m are conditional, plus a future cash earn-out. The latter is based on potential milestone and royalty income from the acquired DeveloGen programmes. Despite acquisition costs of c.€2m, Evotec has maintained its FY-10 guidance for year-end liquidity of at least €64m. The deal is expected to close in August. Evotec is holding an analyst call this morning (8.30am BST) to provide further details on the acquisition.
- **DeveloGen adds partnerships, programmes and technologies.** (1) Complementary alliances - The Boehringer Ingelheim (BI) alliance is focused on small molecule therapies to treat insulin resistance in type II diabetes; deal terms include research funding, €237m potential milestones, plus royalties. The Andromeda partnership is focused on DiaPep277, a synthetic peptide immunomodular for type I diabetes; 450-patient Ph.III study started in Q2-10. We estimate that potential milestones from BI and Andromeda total c.€300m, of which Evotec retains c.70% (other 30% is earn-out). (2) Complementary discovery technologies - Evotec acquires target discovery, pharmacology expertise, and core biology know-how in metabolic diseases. As a consequence, Evotec can now offer a fully integrated R&D platform from target discovery to clinical candidate. (3) Proprietary programme in diabetes - a growth factor programme, which targets beta cell regeneration, is in lead optimisation.
- **What's the impact?** We view DeveloGen as a sensible transaction that rounds out Evotec's discovery platform, adds a proprietary programme, and includes R&D alliances with significant upside potential. Critically, Evotec has achieved all this without impacting YE revenue and cash guidance. We are currently Neutral on Evotec (with an increasingly positive bias), viewing the strong 2009 financial performance and recent alliances/deals as evidence the company is making progress towards its goal of profitability by 2012.

#### PRICE TARGET AND JUSTIFICATION:

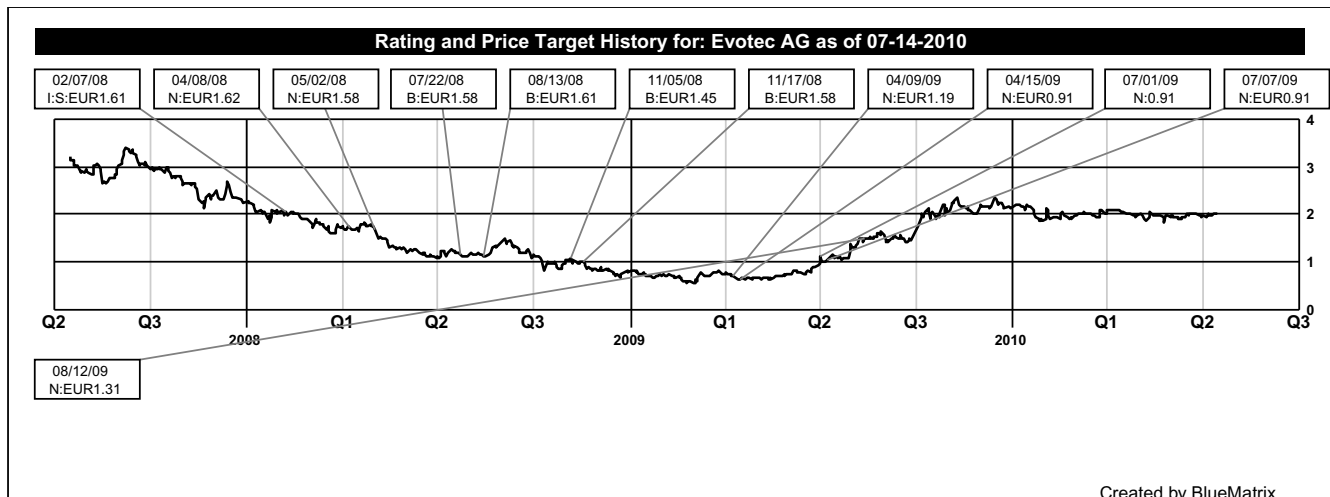
Reiterate Neutral and NPV-derived PT of €1.31 (see note of 25 Mar '10)

#### RISKS TO ACHIEVEMENT OF TARGET PRICE:

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

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			Count	Percent
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