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Related Companies:

Share Price:

Evotec Neutral

(EVT GR - \$2.27)

European Biotechnology

Profitable H1 From Milestones, But Still Good News

CONCLUSION: Evotec has delivered a strong H1 performance with revenues and operating loss well ahead of our estimates. This was driven primarily by €4.5m of milestone income from Boehringer Ingelheim alliance, continued growth in Discovery Alliances revenues (+33% to €20m) and lower R&D costs. In a positive move, Evotec has also raised its 2010 revenue guidance and retained year-end liquidity expectations. The key pipeline update is selection of an H3 antagonist development candidate (EVT501) and intention to start Ph.I within 12 months. We are currently Neutral on the stock.

- **Financials - Boehringer milestones drive profitable H1.** Evotec has reported a robust H1 performance with revenues +33% to €25m, well ahead of our €18m estimate. The difference was driven primarily by the €4.5m of milestone income from the Boehringer Ingelheim alliance. Operating loss of €4.5m was also well ahead of PJe of €11.5m, due to the combination of higher revenues and substantially lower R&D expenses of €2.9m (PJe €5.0m). Accordingly, Evotec posted a small net profit of €95k. We do not, however, expect Evotec to be profitable in H2-10 due to an uptick in R&D spend (to meet full-year guidance of €10m). Period-end liquidity, which includes cash, short-term investments and auction rate securities, was €67.9m.
- **2010 guidance raised.** Based on the strong H1, Evotec has raised its 2010 revenue guidance to €52-54m (previously €48-50m). Despite the €2m of working capital for the Develogen acquisition, Evotec has reiterated its year-end liquidity target of >€64m at constant currency.
- **Develogen acquisition - key H1 event.** As a reminder, Evotec recently acquired the private German biotech Develogen (see note of 15 July 2010). This was, in our view, a sensible acquisition that rounds out Evotec's discovery platform, brings in a proprietary diabetes programme, and includes two major R&D alliances with significant upside potential. Evotec gained 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 cash guidance.
- **Pipeline update - EVT101 Ph.II recruiting; H3 candidate identified.** Evotec started recruiting patients into the Ph.II proof-of-concept study in treatment-resistant depression in June (see note of 1 July). As a reminder, if Roche exercises its buy-back option following positive Ph.II data (possible in H2-11), Evotec would receive a \$65m cash milestone. In other pipeline updates, Evotec has identified a development candidate (EVT501) from its H3 receptor antagonist programme and plans to initiate Phase I within the next 12 months.

PRICE TARGET AND JUSTIFICATION:

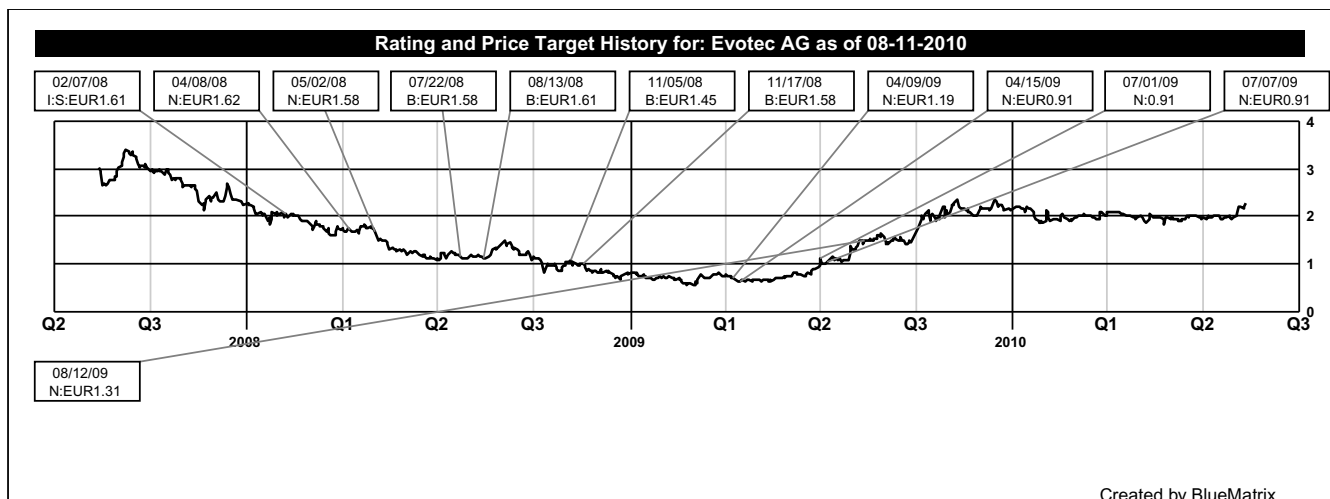
We have a Neutral rating and NPV-derived PT of €1.31 (see note of 25 Mar '10)

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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