

BIOTECHNOLOGY

A Research Publication by DZ BANK AG

Evotec⁶⁾

Reuters: EVTG.DE

Bloomberg: EVT GY

Year *	Sales		Adj. IFRS- Earnings per sh.		Cash flow per share		PER	PCF	Dividend per share
	EUR m		EUR		EUR				
2010	55.3	(55.3)	0.03	(0.03)	0.07	(0.07)	97.6	39.7	0.00
2011e	78.6	(78.6)	0.04	(0.04)	0.08	(0.08)	68.8	30.9	0.00
2012e	86.0	(86.0)	0.06	(0.06)	0.11	(0.11)	38.9	22.4	0.00
2013e	96.2	(96.2)	0.09	(0.09)	0.14	(0.14)	27.4	17.9	0.00

* Fiscal year end December – In brackets: Figures from the last publication

Q3: Roche deal and milestone payments are leading to jump in sales and earnings

- » Evotec will report Q3 figures on 10.11.11:
- » **Sales:** taking into account milestone payments from Boehringer in the amount of EUR 4.0m and from the license agreement on EVT401 (DZ BANKE EUR 1.0m), and in particular the upfront fee from the agreement with Roche on EVT302 (USD 10m/EUR 7m), we forecast sales of EUR 24.0m (+73%) in the third quarter.
- » **Quarterly result:** as a result of the announced increase in R & D expenses and costs in connection with the complete takeover of the Indian subsidiary RISPL in the amount of EUR 1.7m, we expect an EBIT of EUR 5.56m (previous year: EUR 0.67m), a positive net profit of EUR 4.16m (previous year: EUR 0.6m) and EPS of EUR 0.03 (2010: EUR 0.006).
- » **2011 outlook:** for full-year 2011, the company forecasts sales of EUR 77-79m (+39-43%) and end-of-year liquidity of EUR > 60m. In view of the well-filled order book and the development to date during the course of the year, we regard this as well within reach. Consequently, the benchmark has been set very high for 2012.

Milestone payments and in particular upfront fees for the development candidates EVT401 (inflammatory diseases in animals) and EVT302 (in Alzheimer's) should lead to jumps in sales (+73%) and net profit (+538%). The corporate goals for sales in 2011 (EUR 77-79m) and liquidity of EUR >60m should be well within reach and at least reiterated. We confirm our Buy recommendation and the Fair Value of EUR 3.80.

Selected Companies	Price on 4 Nov 2011	PER		EV / EBITDA		EV / Sales 11e	Re- com.
		11e	12e	11e	12e		
Evotec	2.43 EUR	68.8	38.9	22.5	14.2	3.15	↑
Galapagos Genomics	5.88 EUR	25.6	16.8	8.9	6.9	0.62	–
WuXi Pharmatech	12.53 USD	11.8	9.8	5.8	4.6	1.85	–
Abcam	3.57 GBP	27.2	24.2	17.9	15.4	7.16	–
MorphoSys	17.48 EUR	49.1	24.7	17.8	9.2	2.61	↓
Median for all peer group companies		18.7	16.8	10.4	9.2	3.49	–

↑ = Buy, → = Hold, ↓ = Sell, ● = not rated, n/a = not appropriate
Source: DZ BANK, I/B/E/S, FactSet

EQUITIES

Flash
7 Nov 2011

Buy (prev. Buy)

Closing price 4 Nov 2011

(in EUR): 2.43
Fair value: 3.80 (prev. 3.80)

Risk classification: 4

Financial ratios 2011e:

Book value per share (in EUR): 1.18
Equity ratio (in %): 68.7
Net margin (in %): 5.3
ROE (in %): 3.0
Dividend yield (in %): 0.0
Free cash flow (EUR m): 3.2
Net debt (EUR m): -40.8

Number of shares

(million units): 118.3

Market cap

(in EUR m): 287.98

Free float (in %):

76.0

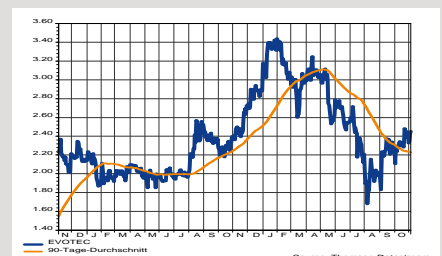
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Report Q3 10.11.2011



Author: Dr. Elmar Kraus, Analyst

DZ BANK
Bank on Germany

AT A GLANCE

Company profile

Evotec pursues a hybrid business model as a service provider and drug developer for the pharmaceutical industry. In addition to fees for contract work, the company also receives payments on reaching specific research milestones and a share of sales once a drug has reached the market. The company now only develops its own, self-funded projects up to a certain degree of maturity.

Basis for investment recommendation

Milestone payments and in particular upfront fees for the development candidates EVT401 (inflammatory diseases in animals) and EVT302 (in Alzheimer's) should lead to jumps in sales (+73%) and net profit (+538%). The corporate goals for sales in 2011 (EUR 77-79m) and liquidity of EUR >60m should be well within reach and at least reiterated. We confirm our Buy recommendation and the Fair Value of EUR 3.80.

Price sensitive current issues

- » Integration of newly acquired Develogen, Kinaxo and Compound Focus
- » Further expansion of customer base, in particular through the newly acquired companies
- » Guidance for 2011 in terms of potential early completion of "Evotec 2012 - Action plan to focus and grow"

Opportunities and risks

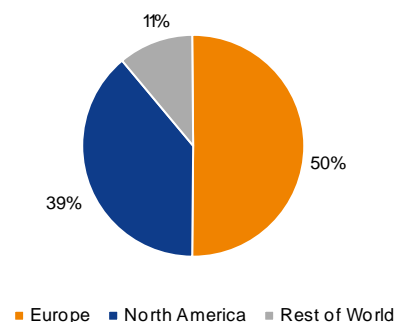
Opportunities	Risks
Ongoing trend towards outsourcing of R&D activities	Growth restrictions through shortage of personnel
New customer contracts and milestone payments from projects of recently acquired Develogen and Kinaxo	Let-up in outsourcing trend
Early completion of "Evotec 2012 - Action plan to focus and grow"	Development risks
Cross-selling via newly acquired Compound Focus	

RATIOS

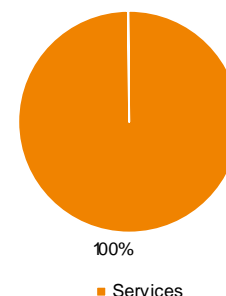
Euro	2010	2011e	2012e	2013e	2014e
Profit and loss ratios					
Sales (m)	55.3	78.6	86.0	96.2	105.3
EBITDA margin	11.7%	14.0%	19.5%	22.2%	24.6%
EBIT margin	3.1%	7.6%	13.2%	16.4%	19.3%
Net margin	5.4%	5.3%	8.6%	11.0%	13.1%
Investment ratio	0.0%	40.2%	4.7%	4.2%	3.8%
R&D as % of sales	11.1%	14.0%	11.8%	10.6%	9.7%
Admin and sales costs as % of sales	28.9%	22.5%	23.0%	21.5%	20.5%
Net other operating costs as % of sales	1.0%	2.1%	0.0%	0.0%	0.0%
Net financial income as % of sales	3.9%	0.0%	-0.9%	-0.8%	-0.6%
Interest cover	2.7	204.7	14.6	21.7	32.1
Average sales growth next five years	15.8%				
Average earnings growth next five years	36.8%				
Profitability ratios					
ROE	2.3%	3.0%	5.0%	6.7%	8.1%
ROCE	1.7%	4.8%	9.2%	13.0%	17.1%
Productivity ratios					
Sales per employee ('000)	110.08	147.81	153.99	164.03	171.06
EBIT per employee ('000)	3.42	11.16	20.33	26.90	33.01
Balance sheet ratios					
Equity ratio	69.1%	68.7%	69.1%	69.6%	70.6%
Long term debt and equity / Fixed assets	157.6%	132.8%	140.5%	151.0%	164.4%
Liquidity (quick ratio)	318.6%	236.4%	260.1%	287.6%	323.1%
Receivables as % of sales	21.4%	8.1%	8.1%	8.1%	8.1%
Investment (net of GW) / Depreciation		621.6%	73.4%	72.3%	71.2%
Working capital as % of sales	2.7%	-3.8%	-3.8%	-3.8%	-3.8%
Net debt (m)	-54.6	-40.8	-50.7	-63.9	-80.4
Net debt complete (m)	-35.9	-21.6	-30.7	-43.2	-58.9
Figures per share					
Earnings per share, diluted	0.03	0.04	0.06	0.09	0.12
Diluted cash earnings per share	0.07	0.08	0.11	0.14	0.16
Dividend per common share	0.00	0.00	0.00	0.00	0.00
Cash per share, diluted	0.18	0.21	0.30	0.41	0.55
Net debt per share, diluted	-0.47	-0.34	-0.43	-0.54	-0.68
Valuation ratios					
Enterprise value / Sales	5.1	3.1	2.8	2.3	2.0
Enterprise value / EBITDA	43.8	22.5	14.2	10.6	8.0
Enterprise value / EBIT	165.3	41.7	21.0	14.3	10.3
EV/Sales to sales growth	0.26	0.20	0.18	0.15	0.13
PEG ratio - common shares		1.87			
Fiscal year end December					

Source: Evotec, DZ BANK estimates

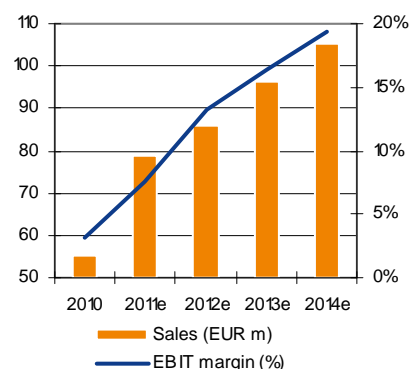
SALES BY REGION 2010



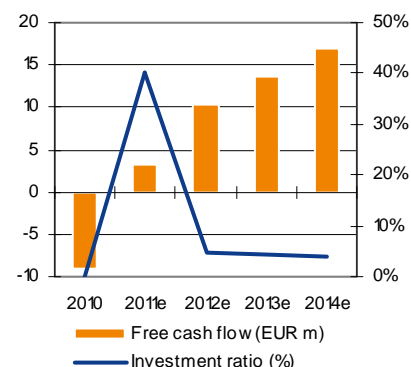
SALES BY BUSINESS SEGMENT 2010



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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RATING HISTORY

Recommendation	Date	Price
Buy	5 Feb 2010	1.96 EUR

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