

11 February 2011

Evotec

Year End	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/08	39.6	(47.7)	(52.1)	0.0	N/A	N/A
12/09	42.7	(21.7)	(20.6)	0.0	N/A	N/A
12/10e	53.7	1.7	1.5	0.0	N/A	N/A
12/11e	62.2	1.3	0.6	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Investment summary: Bolt-on acquisition

Evotec's proposed acquisition of Kinaxo will help it to maintain its position as a premium provider of drug discovery services and strengthen its capabilities in oncology. There are potential revenue synergies because of Kinaxo's expertise in oncology, its complementary technology platform, and the overlap in alliance partners. The acquisition could accelerate Evotec's path to sustainable profitability.

Acquiring a fast-growing, profitable company

Evotec has signed a definitive agreement to acquire Munich-based Kinaxo for c €12m (€3m in cash, 2.6m shares) and earn-out payments of up to €4m. Kinaxo's revenues are growing at c 30%, after entering into a number of alliances with companies such as Roche, AstraZeneca and Boehringer Ingelheim. It was forecast to generate sales of c €2.5m in 2011 and is profitable. The deal should be completed by the end of April, and integration costs of €4m are expected in 2011.

Significant revenue synergies

Kinaxo is a drug discovery company with a particular strength in oncology. It is a leader in profiling the effects that a drug has on a cell's proteins, including phosphorylation states. Revenue synergies should be achieved because Kinaxo's technology complements that of Evotec, and its strength in oncology will make Evotec a more attractive alliance partner in this indication. There is also an overlap in alliance partners, increasing the likelihood that existing alliances can be expanded.

2011 guidance

Evotec expects revenues to grow by more than 15% in 2011 and to maintain its strong balance sheet with liquidity of over €64m. The acquisition of Kinaxo could accelerate Evotec's path to becoming a sustainable biotech company, and it now expects to achieve this goal by at least the end of 2012.

Valuation: DCF valuation increased to €400m

We have raised our DCF valuation by €30m to €400m after increasing our sales forecasts. They have been increased by €2.5m to €62.2m in 2011 and by €3.0m to €71.6m in 2012. Potential catalysts are financial results and alliance agreements.

Price €3.29
Market Cap €380m

Share price graph



Share details

Code EVT
Listing Frankfurt, Prime Standard
Sector Pharmaceuticals & Biotech
Shares in issue 115.6m

Price

52 week High Low
€3.48 €1.80

Balance Sheet as at 30 September 2010

Debt/Equity (%) N/A
NAV per share (€) 1.23
Net cash (€m) 55.5

Business

Evotec is a drug discovery business that provides outsourcing solutions to the pharmaceutical industry and develops its own proprietary drugs.

Valuation

	2009	2010e	2011e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	6.9	5.2	5.3
ROE	N/A	1.2%	0.5%

Geography based on revenues

	UK	Europe	US	Other
N/A		N/A	N/A	N/A

Analysts

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Exhibit 1: Financials

	€'000s	2007	2008	2009	2010e	2011e	2012e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		32,885	39,613	42,683	53,743	62,222	71,556
Cost of Sales		(24,862)	(21,977)	(24,262)	(30,254)	(35,467)	(40,787)
Gross Profit		8,023	17,636	18,421	23,489	26,756	30,769
EBITDA		(40,271)	(40,889)	(15,547)	2,099	4,611	7,283
Operating Profit (before GW and except.)		(46,624)	(44,942)	(19,157)	1,152	708	3,248
Intangible Amortisation		(2,589)	(553)	(455)	(425)	(574)	(571)
Exceptionals/Other		(6,565)	(27,715)	(22,687)	0	(4,000)	0
Operating Profit		(55,778)	(73,210)	(42,299)	727	(3,866)	2,677
Net Interest		4,006	(2,760)	(2,520)	502	612	770
Other		36,392	0	0	0	0	0
Profit Before Tax (norm)		(42,618)	(47,702)	(21,677)	1,655	1,320	4,018
Profit Before Tax (FRS 3)		(15,380)	(75,970)	(44,819)	1,229	(3,254)	3,447
Tax		(419)	(1,911)	(363)	(309)	(560)	(644)
Deferred tax		4,643	(406)	(315)	(454)	(0)	(0)
Profit After Tax (norm)		(43,037)	(49,613)	(22,040)	1,345	760	3,374
Profit After Tax (FRS 3)		(11,156)	(78,287)	(45,497)	466	(3,814)	2,803
Average Number of Shares Outstanding (m)		71.8	95.2	106.8	103.3	117.5	119.9
EPS - normalised (c)		(59.9)	(52.1)	(20.6)	1.5	0.6	2.8
EPS - FRS 3 (c)		(15.5)	(82.2)	(42.6)	0.7	(3.2)	2.3
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		24.4	44.5	43.2	43.7	43.0	43.0
EBITDA Margin (%)		N/A	N/A	N/A	3.9	7.4	10.2
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A	N/A
BALANCE SHEET							
Fixed Assets		96,037	89,822	77,642	96,868	106,679	106,936
Intangible Assets		76,399	60,455	45,567	75,191	83,416	84,846
Tangible Assets		18,561	18,468	19,162	18,587	20,173	19,001
Other		1,077	10,899	12,913	3,090	3,090	3,090
Current Assets		111,841	93,078	68,957	82,656	80,988	86,809
Stocks		2,394	2,139	2,425	3,730	3,887	4,470
Debtors		5,137	2,531	4,510	5,890	5,967	5,881
Cash		93,676	84,098	58,358	67,224	65,322	70,645
Other		10,634	4,310	3,664	5,813	5,813	5,813
Current Liabilities		(24,337)	(21,826)	(26,445)	(28,914)	(30,263)	(32,917)
Creditors		(23,040)	(19,247)	(17,358)	(17,191)	(19,297)	(21,951)
Short term borrowings		(1,297)	(2,579)	(9,087)	(11,723)	(10,966)	(10,966)
Long Term Liabilities		(12,988)	(11,215)	(8,667)	(17,936)	(18,139)	(18,359)
Long term borrowings		(9,125)	(8,047)	(3,757)	(3,000)	(3,000)	(3,000)
Other long term liabilities		(3,863)	(3,168)	(4,910)	(14,936)	(15,139)	(15,359)
Net Assets		170,553	149,859	111,487	132,674	139,266	142,469
CASH FLOW							
Operating Cash Flow		(32,726)	(42,562)	(19,915)	(610)	5,136	10,579
Net Interest		1,590	2,116	(29)	(63)	(259)	(232)
Tax		(536)	(832)	(1,909)	(391)	(533)	(161)
Capex		(4,349)	(3,447)	(1,893)	(2,510)	(2,489)	(2,862)
Acquisitions/disposals		42,245	34,491	0	1,202	(3,000)	(2,000)
Financing		(1,023)	(1,951)	234	122	0	0
Dividends		0	0	0	0	0	0
Other		332	10,706	157	0	0	0
Net Cash Flow		5,533	(1,479)	(23,355)	(2,250)	(1,145)	5,323
Opening net debt/(cash)		(69,841)	(83,254)	(81,775)	(57,750)	(55,516)	(54,371)
HP finance leases initiated		0	0	0	0	0	0
Exchange rate movements		8,831	0	(272)	(692)	0	0
Other		(951)	0	(398)	4,410	(0)	0
Closing net debt/(cash)		(83,254)	(81,775)	(57,750)	(59,218)	(54,371)	(59,694)

Source: Edison Investment Research, company accounts

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