

Recommendation: **BUY** (Company Update) Risk: **Medium** (Medium) Price Target: **EUR 2.90** (2.80)

12 August 2010

Profitable 1H/2010

- On 12 August Evotec has released financial figures for 1H/2010, which were very strong in comparison to the previous year. For 1H/2010, revenues grew significantly by 33% to EUR 25.0m (PY: EUR 18.7m), driven by multiple milestone achievements and strong growth in Evotec's drug discovery alliances.
- The Company operates on a strong gross margin of 45.1% (PY: 37.6%). R&D expenses declined by 82% to EUR 2.9m (PY: EUR 16.3m), and SG&A costs by 15% to EUR 7.7m (PY: EUR 9.0m). On this basis, supported by the high margin milestone income, Evotec's operating result for 1H/2010 was positive at EUR 0.3m (PY: EUR 29.1 m loss).
- Evotec has restructured and enlarged its management team. Colin Bond was appointed as a new CFO effective 12 August, while Dr. Klaus Maleck (current CFO) will assume a new board role in Corporate Development and will take responsibility for all corporate development activities including licensing of proprietary discovery and development projects, strategy and M&A. The company also appointed Cord Dohrmann as a new CSO effective 1 September
- According to management, R&D costs are expected to catch up in 2H/2010. Thus despite very low R&D expenses in 1H/2010 (EUR 2.9m) for the entire 2010E Evotec guided >EUR 10m (CBSR estimated R&D: Old: EUR 10.0m; New: EUR 9.3m), which should burden the operating result. Therefore, we do not expect profitability for the entire FY 2010E. Nevertheless, we assume that in FY 2010E the operating result (CBSR estimated EBIT: Old: EUR -5.3m; New: EUR -2.5m) as well as bottom line should be better than we have previously estimated.
- Having revised our estimates upwards we derived a new fair value of EUR 320.3m or EUR 2.94/share. We increase our price target from EUR 2.80/share to EUR 2.90/share and maintained BUY recommendation.

Key data

Y/E 31.12., EUR m	2008	2009	2010E	2011E	2012E
Revenues	39.6	42.7	52.8	60.9	70.0
Gross profit	17.6	18.4	23.5	28.6	34.3
EBITDA	-68.4	-38.2	-0.2	1.7	5.3
EBIT	-73.2	-42.3	-2.5	-1.0	2.2
Net income/loss	-78.3	-45.5	-2.4	-0.7	2.2
EPS	-0.82	-0.43	-0.02	-0.01	0.02
CPS	0.52	0.50	0.29	0.26	0.25
Gross margin	44.5%	43.2%	44.5%	47.0%	49.0%
EBITDA margin	-172.7%	-89.6%	-0.3%	2.8%	7.5%
EBIT margin	-184.8%	-99.1%	-4.7%	-1.6%	3.2%
EV/EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.
EV/EBIT	n.m.	n.m.	n.m.	n.m.	n.m.
P/E	n.m.	n.m.	n.m.	n.m.	n.m.

Source: Evotec AG; CBS Research AG;

Share price (dark) vs. TecDAX



Source: CBS Research AG, Bloomberg

Change	2010E		2011E		2012E	
	new	old	new	old	new	old
Revenue	52.8	50.6	60.9	58.4	70.0	67.2
EBIT	-2.5	-5.3	-1.0	-1.4	2.2	2.2
EPS	-0.02	-0.05	-0.01	-0.01	0.02	0.02

Internet: www.evotec.com Secoter: Biotechnology
WKN: 566480 ISIN: DE0005664809
Reuters: EVTG.DE Bloomberg: EVT GY

Short company profile

Evotec AG is a drug discovery and development company headquartered in Hamburg with operating subsidiaries in India and Singapore.

Share data:

Share price (last closing price, EUR):	2.26
Shares outstanding (m):	108.84
Market capitalisation (EURm):	246.08
Enterprise value (EURm):	194.20
Ø daily trading volume (3 m., no. of shares):	216,342

Performance data:

High 52 weeks (EUR):	2.45
Low 52 weeks (EUR):	1.36
Absolute performance (12 months)	54.7%
Relative performance: (vs. TecDAX)	
1 month	18.8%
3 months	18.6%
6 months	24.4%
12 months	42.5%

Shareholders:

Roland Oetker/ROI	13.5%
TVM V Life Science Ventures	10.5%
Free float	76.0%

Financial calendar:

3Q/2010 Results 11 November 2010

Authors: **Igor Kim** (Analyst)

Kristina Kardum (Analyst)

Close Brothers Seydler Research AG

Phone: +49 (0) 69-977 84 56 0

Email: research@cbseydlerresearch.ag

www.cbseydlerresearch.ag

Overview of 1H/2010 results

On 12 August Evotec has released financial figures for 1H/2010, which were very strong in comparison to previous year. For 1H/2010, revenues grew significantly by 33% to EUR 25.0m (PY: EUR 18.7m), driven by multiple milestone achievements and strong growth in Evotec's drug discovery alliances. The Company operates on a strong gross margin of 45.1% (PY: 37.6%). R&D expenses declined by 82% to EUR 2.9m (PY: EUR 16.3m), and SG&A costs by 15% to EUR 7.7m (PY: EUR 9.0m). On this basis, supported by the high margin milestone income, Evotec's operating result for 1H/2010 was positive at EUR 0.3m (PY: EUR 29.1 m loss). Liquidity including cash, cash equivalents and investments as well as on March 2010, auction rate securities at the end of June 2010 increased over end of March 2010 to EUR 67.9m.

Guidance for 2010

Based on a strong H1 2010 operational performance, Evotec raised its revenue guidance for FY 2010 published on 25 March 2010: Total Group revenues are now expected to grow by more than 20% (before: 15%), leading to revenues of EUR 52 to 54m (before: EUR 48 to 50m). All other financial targets remain unchanged. Despite EUR 2m cash to be used in the acquisition of DeveloGen, mainly for DeveloGen working capital needs, Evotec also confirms its 2010 year-end liquidity target of >EUR 64 m at constant year-end 2009 currencies.

Enlarged management team

Evotec has restructured and enlarged its management team. Colin Bond was appointed as a new CFO effective 12 August, while Dr. Klaus Maleck (current CFO) will assume a new board role in Corporate Development and will take responsibility for all corporate development activities including licensing of proprietary discovery and development projects, strategy and M&A. The company also appointed Cord Dohrmann as a new CSO effective 1 September.

During 2Q/2010, Evotec strengthened its Business Development capability through the appointments of Dr Steve Hutchins and Dr Brian Moloney to the global business development team. Steve Hutchins joins from WuXiPharma where he served as VP Corporate Development, and prior to this he held a number of positions in Strategic Outsourcing at Merck Research Laboratories. Brian Moloney joins from BioDuro (China) where he was VP Business Development & Collaboration Management, and prior to this he held senior scientific management roles in Evotec.

Profitability in 1H/2010

Evotec raised its guidance

Strengthening management team

2010 estimates adjustment

From our point of view the new guidance is reasonable given the strong order book in tune of EUR 40m as of end of June (PY: EUR 33m) and milestones payments in 1H/2010 (aside 2 milestones payments from Boehringer Ingelheim that drove Evotec's revenue in 2Q/2010, Evotec has recently received the third milestone payment from Boehringer Ingelheim in the amount of EUR 2.5m which should contribute to the top line in 3Q/2010). Therefore we revised upward our revenue estimate for 2010E (CBSR Estimated revenue: New: EUR 52.8m; Old EUR 50.6m)

**2010E Revenue
estimate: EUR 52.8m**

2010 Estimates: Quarterly breakdown

IFRS	EUR 1,000	1Q 2010E	2Q 2010	1H 2010	3Q 2010E	4Q 2010E	2H 2010E	9M 2010E	FY 2010E
Revenues		9,841.0	15,127.0	24,968.0	13,900.0	13,955.5	27,855.5	38,868.0	52,823.5
Gross profit		3,729.0	7,525.0	11,254.0	6,116.0	6,140.4	12,256.4	17,370.0	23,510.4
as % of revenue		37.9%	49.7%	45.1%	44.0%	44.0%	44.0%	44.7%	44.5%
EBIT		-1,474.0	1,816.0	342.0	-904.0	-1,894.5	-2,798.5	-562.0	-2,456.5
as % of revenue		-15.0%	12.0%	1.4%	-6.5%	-13.6%	-10.0%	-1.4%	-4.7%
EBT		-1,358.0	1,869.0	511.0	-927.2	-1,917.6	-2,844.8	-416.2	-2,333.8
as % of revenue		-13.8%	12.4%	2.0%	-6.7%	-13.7%	-10.2%	-1.1%	-4.4%
Net profit		-1,247.0	1,342.0	95.0	-827.2	-1,717.6	-2,544.8	-732.2	-2,449.8
as % of revenue		-12.7%	8.9%	0.4%	-6.0%	-12.3%	-9.1%	-1.9%	-4.6%

Source: CBS Research AG

Given the very strong 1H/2010 we have revised our figures for the entire year 2010E. A flow of milestone payments in 2Q/2010 coupled with substantially reduced operating expenses particularly R&D costs resulted in positive operating result and net income in 1H/2010. However, we do not expect profitability for the entire FY 2010E. The main reason is R&D cost, which according to management, are expected to catch up in 2H/2010. Thus despite very low R&D expenses in 1H/2010 (EUR 2.9m) for the entire 2010E Evotec guided >EUR 10m (CBSR estimated R&D: Old: EUR 10m; New: EUR 9.3m). Nevertheless, we assume that in FY 2010E operating result (CBSR estimated EBIT: Old: EUR -5.3m; New: EUR -2.5m) as well bottom line should be better than we have previously estimated.

**Operating result in FY
2010E should be better
than previously
expected**

For 2010E we expect cash burn to be much lower than we have previously estimated (CBSR estimated cash burn: Old: EUR 11.8m; New: EUR 3.4m), which is explained by the proceeds from the sale of auction rate securities in the amount of EUR 11.4m that occurred in 1H/2010.

Sum of the parts valuation

	Valuation method applied	Sum of the parts valuation in EUR m	Sum of the parts valuation per share	Relative value contribution
Discovery alliance business	DCF	144.3	1.33	45%
EVT 101/103 (Partner: Roche)	rNPV	82.9	0.76	26%
DiaPep277 (Andromeda/Teva)	rNPV	38.3	0.35	12%
H₃ antagonist	rNPV	14.3	0.13	4%
Cash and cash equivalents net of debt		40.5	0.37	13%
Total value		320.3	2.94	100%

Source: CBS Research AG

The upward revision of our estimates resulted in a new DCF based fair value of Discovery alliance business EUR 144.3m or EUR 1.33/share (Old: EUR 137.1m or EUR 1.26/share). Thus, the new sum of the parts valuation is EUR 320.3m or EUR 2.94/share. We increase our price target from EUR 2.80/share to EUR 2.90/share and maintain BUY recommendation.

**Price target EUR 2.90
per share**

Appendix

Key P&L data

	2007	2008	2009	CAGR 2007-09	2010e	2011e	2012e	2013e	CAGR 2010e-13e
Revenue	54.4	39.6	42.7	-11%	52.8	60.9	70.0	79.0	14%
Cost of revenue	40.9	-22.0	-24.3	-23%	-29.3	-32.3	-35.7	-38.7	10%
R&D	-36.9	-42.5	-20.9	-25%	-9.3	-11.0	-12.8	-14.1	15%
S,G&A	-20.9	-20.0	-16.7	-11%	-16.1	-18.3	-18.9	-19.0	6%
EBITDA	-47.2	-68.4	-38.2	n.m.	-4.9	1.7	5.3	10.0	n.m.
EBIT	-55.8	-73.2	-42.3	n.m.	-2.5	-1.0	2.2	6.9	n.m.
Net result	-11.2	-78.3	-45.5	n.m.	-2.4	-0.7	2.2	5.6	n.m.

Source Evotec AG; CBS Research AG

Cash flow metrics

Cash flow metrics	2007	2008	2009	2010e	2011e	2012e	2013e
Cash flow from operating activity	-31.7	-41.3	-21.9	-5.0	1.8	4.7	7.9
Net capital expenditures	21.3	61.0	-2.1	1.6	-3.0	-2.8	-2.9
Cash flow from financing activity	-1.0	-4.3	1.5	-0.7	0.0	0.0	0.0
Cash equivalents and available-for-sale financial assets	93.7	84.1	58.4	57.9	56.8	58.7	63.7
Cash burn rate	10.4	0.0	23.9	3.4	1.2	0.0	0.0

Source Evotec AG; CBS Research AG

Margins projection

Margins	2007	2008	2009	2010e	2011e	2012e	2013e
Cost of revenue	75%	-55%	-57%	-55%	-53%	-51%	-49%
R&D	-68%	-107%	-49%	-18%	-18%	-18%	-18%
S,G&A	-39%	-50%	-39%	-30%	-30%	-27%	-24%
EBITDA	-87%	-173%	-90%	-9%	3%	8%	13%
EBIT	-103%	-185%	-99%	-5%	-2%	3%	9%
Net result	-21%	-198%	-107%	-5%	-1%	3%	7%

Source Evotec AG; CBS Research AG

Evotec AG

Profit and loss account

IFRS EUR 1,000	2008	2009	2010E	2011E	2012E
Total revenues	39,613	42,683	52,824	60,935	69,985
YoY growth	-27.2%	7.7%	23.8%	15.4%	14.9%
Cost of revenue	-21,977	-24,262	-29,313	-32,296	-35,692
as % of sales	-55.5%	-56.8%	-55.5%	-53.0%	-51.0%
Gross profit	17,636	18,421	23,510	28,639	34,292
as % of sales	44.5%	43.2%	44.5%	47.0%	49.0%
Research and development expenses	-42,537	-20,947	-9,327	-11,000	-12,807
as % of sales	-107.4%	-49.1%	-17.7%	-18.1%	-18.3%
Selling, general and administrative (S,G&A)	-19,950	-16,695	-16,097	-18,281	-18,896
as % of sales	-50.4%	-39.1%	-30.5%	-30.0%	-27.0%
Other operating expenses	-28,359	-23,078	-543	-325	-340
as % of sales	-71.6%	-54.1%	-1.0%	-0.5%	-0.5%
EBITDA	-68,404	-38,234	-160	1,724	5,277
as % of sales	-172.7%	-89.6%	-0.3%	2.8%	7.5%
Depreciation and amortisation	-4,806	-4,065	-2,296	-2,690	-3,027
as % of sales	-12.1%	-9.5%	-4.3%	-4.4%	-4.3%
EBIT	-73,210	-42,299	-2,456	-966	2,249
as % of sales	-184.8%	-99.1%	-4.7%	-1.6%	3.2%
Net financial results	-2,760	-2,520	123	217	200
EBT (Earnings before income taxes)	-75,970	-44,819	-2,334	-749	2,449
as % of sales	-191.8%	-105.0%	-4.4%	-1.2%	3.5%
Income taxes	-2,317	-678	-116	0	-245
as % of EBT	3.0%	1.5%	5.0%	0.0%	-10.0%
Net income/loss	-78,287	-45,497	-2,450	-749	2,204
as % of sales	-197.6%	-106.6%	-4.6%	-1.2%	3.1%
Shares outstanding (in tsd.)	95,199	106,846	110,351	112,839	112,839
Basic earnings per share (EUR)	-0.82	-0.43	-0.02	-0.01	0.02

Source Evotec AG; CBS Research AG

Balance Sheets

IFRS EUR 1,000	2008	2009	2010E	2011E	2012E
Assets					
Noncurrent assets	89,822	77,642	70,032	70,324	70,088
as % of total equity and liabilities	49.1%	53.0%	49.9%	50.1%	49.0%
Property, plant and equipment	18,468	19,162	20,363	20,980	21,084
Total intangible assets	60,455	45,567	46,570	46,245	45,905
Other assets	10,899	12,913	3,099	3,099	3,099
Current assets	93,078	68,957	70,350	69,933	73,034
as % of total equity and liabilities	50.9%	47.0%	50.1%	49.9%	51.0%
Cash and cash equivalents	29,034	32,926	28,787	27,678	29,588
Investments	55,064	25,432	29,149	29,149	29,149
Trade accounts receivables	2,531	4,510	5,210	5,342	6,270
Inventories	2,139	2,425	2,784	3,145	3,408
Current tax receivables	1,373	347	619	619	619
Other current financial assets	951	1,428	1,800	2,000	2,000
Prepaid expenses and other current assets	1,986	1,889	2,000	2,000	2,000
Total assets	182,900	146,599	140,381	140,257	143,122
Shareholders' equity and liabilities					
Shareholders' equity	149,859	111,487	109,037	108,288	110,492
as % of total equity and liabilities	81.9%	76.0%	77.7%	77.2%	77.2%
Share capital	108,839	108,839	108,839	108,839	108,839
Additional paid-in capital	647,163	648,417	648,417	648,417	648,417
Accumulated other comprehensive income	-32,762	-27,478	-24,615	-24,615	-24,615
Accumulated deficit	-573,381	-618,904	-624,217	-624,966	-622,762
Equity attributable to shareholders of Evotec	149,859	110,874	108,424	107,675	109,879
Minority interests	0	613	613	613	613
Current liabilities	21,826	26,445	25,038	25,663	26,324
as % of total equity and liabilities	11.9%	18.0%	17.8%	18.3%	18.4%
Current maturities of long-term loans	2,579	9,087	9,500	9,500	9,500
Current portion of finance lease obligations	356	229	144	189	189
Trade accounts payable	6,371	4,398	5,702	6,282	6,943
Accounts payable to related parties	820	837	837	837	837
Advanced payments received	275	129	20	20	20
Provisions	6,859	4,858	2,400	2,400	2,400
Deferred revenue	1,238	5,483	5,000	5,000	5,000
Current income tax payable	1,719	244	151	151	151
Other current financial liabilities	609	485	284	284	284
Other current liabilities	1,000	695	1,000	1,000	1,000
Noncurrent liabilities	11,215	8,667	6,306	6,306	6,306
as % of total equity and liabilities	6.1%	5.9%	4.5%	4.5%	4.4%
Long-term loans	8,047	3,757	3,000	3,000	3,000
Long-term finance lease obligations	346	132	72	72	72
Deferred tax liabilities	1,463	1,977	1,977	1,977	1,977
Deferred revenue	580	1,969	379	379	379
Provisions	779	832	878	878	878
Total equity and liabilities	182,900	146,599	140,381	140,257	143,122

Source Evotec AG; CBS Research AG

Cash flow statement

	IFRS	EUR 1,000	2008	2009	2010E	2011E	2012E
Net result			-78,287	-45,497	-2,450	-749	2,204
Depreciation and amortisation of tangible and intangible assets			4,806	4,065	2,296	2,690	3,027
Impairment of tangible and intangible assets			27,583	18,316	0	0	0
Adj. to reconcile net loss to net cash used in operating activities			5,057	4,410	138	-217	-200
Changes in asses and liabilities			-1,721	-1,209	-4,799	-113	-530
Interest paid received			2,116	-29	-138	217	200
Taxes paid			-832	-1,909	-93	0	0
Net cash used in operating activities			-41,278	-21,853	-5,046	1,828	4,702
Net cash provided by investing activities			61,049	-2,077	1,597	-2,983	-2,791
Net cash provided by financing activities			-4,309	1,520	-690	45	0
Decrease/Increase in Cash and Cash equivalents			15,462	-22,410	-4,139	-1,110	1,911
Exchange rate difference			1,611	272	0	0	0
Cash and cash equivalents at the beginning of the year			37,991	55,064	32,926	28,787	27,678
Cash and cash equivalents at year's end			55,064	32,926	28,787	27,678	29,588

Research


Close Brothers Seydler
 Research AG

Schillerstrasse 27 - 29
 60313 Frankfurt am Main

Phone: +49 (0)69 – 977 8456-0

Roger Peeters CEO	+49 (0)69 -977 8456- 12 Roger.Peeters@cbseydlerresearch.ag		
Martin Decot	+49 (0)69 -977 8456- 13 Martin.Decot@cbseydlerresearch.ag	Rabeya Khan	+49 (0)69 -977 8456- 10 Rabeya.Khan@cbseydlerresearch.ag
Igor Kim	+49 (0)69 -977 8456- 15 Igor.Kim@cbseydlerresearch.ag	Ralf Marinoni	+49 (0)69 -977 8456- 17 Ralf.Marinoni@cbseydlerresearch.ag
Manuel Martin	+49 (0)69 -977 8456- 16 Manuel.Martin@cbseydlerresearch.ag	Enid Omerovic	+49 (0)69 -977 8456- 19 Enid.Omerovic@cbseydlerresearch.ag
Marcus Silbe	+49 (0)69 -977 8456- 14 Marcus.Silbe@cbseydlerresearch.ag	Veysel Taze	+49 (0)69 -977 8456- 18 Veysel.Taze@cbseydlerresearch.ag

Institutional Sales


Close Brothers Seydler
 Bank AG

Schillerstrasse 27 – 29
 60313 Frankfurt am Main

Phone: +49 (0)69 – 9 20 54-400


Close Brothers Seydler UK

a division of Winterflood Securities Limited
 The Atrium Building / Cannon Bridge
 25 Dowgate Hill
 London EC4R 2GA

Phone: +44 20 3100 0281

Raimar Bock Head of Sales	+49 (0)69 -9 20 54-115 Raimar.Bock@cbseydler.com		
Rüdiger Eich (Germany, Switzerland)	+49 (0)69 -9 20 54-119 Ruediger.Eich@cbseydler.com	Uwe Gerhardt (Germany, Switzerland)	+49 (0)69 -9 20 54-168 Uwe.Gerhardt@cbseydler.com
Klaus Korzilius (Austria, Benelux, Germany)	+49 (0)69 -9 20 54-114 Klaus.Korzilius@cbseydler.com	Stefan Krewinkel (Execution, UK)	+49 (0)69 -9 20 54-118 Stefan.Krewinkel@cbseydler.com
Markus Laifle (Execution)	+49 (0)69 -9 20 54-120 Markus.Laifle@cbseydler.com	Bruno de Lencquesaing (Benelux, France)	+49 (0)69 -9 20 54-116 Bruno.deLencquesaing@cbseydler.com

Sales USA



111 Town Square Place
 Suite 1500A
 Jersey City, NJ 07310

Phone: +1 201 216 0100

Tom Higgins	+1 201 706 6013 thiggins@hudsonsecurities.com
-------------	---

Disclaimer and statement according to § 34b German Securities Trading Act (“Wertpapierhandelsgesetz”) in combination with the provisions on financial analysis (“Finanzanalyseverordnung” FinAnV)

This report has been prepared independently of the company analysed by Close Brothers Seydler Research AG and/ or its cooperation partners and the analyst(s) mentioned on the front page (hereafter all are jointly and/or individually called the ‘author’). None of Close Brothers Seydler Research AG, Close Brothers Seydler Bank AG or its cooperation partners, the Company or its shareholders has independently verified any of the information given in this document.

Section 34b of the German Securities Trading Act in combination with the FinAnV requires an enterprise preparing a security analysis to point out possible conflicts of interest with respect to the company that is the subject of the analysis.

Close Brothers Seydler Research AG is a majority owned subsidiary of Close Brothers Seydler Bank AG (hereafter ‘CBS’). However, Close Brothers Seydler Research AG (hereafter ‘CBSR’) provides its research work independent from CBS. CBS is offering a wide range of Services not only including investment banking services and liquidity providing services (designated sponsoring). CBS or CBSR may possess relations to the covered companies as follows (additional information and disclosures will be made available upon request):

- a. CBS holds more than 5% interest in the capital stock of the company that is subject of the analysis.
- b. CBS was a participant in the management of a (co)consortium in a selling agent function for the issuance of financial instruments, which themselves or their issuer is the subject of this financial analysis within the last twelve months.
- c. CBS has provided investment banking and/or consulting services during the last 12 months for the company analysed for which compensation has been or will be paid for.
- d. CBS acts as designated sponsor for the company’s securities on the basis of an existing designated sponsorship contract. The services include the provision of bid and ask offers. Due to the designated sponsoring service agreement CBS may regularly possess shares of the company and receives a compensation and/ or provision for its services.
- e. The designated sponsor service agreement includes a contractually agreed provision for research services.
- f. CBSR and the analysed company have a contractual agreement about the preparation of research reports. CBSR receives a compensation in return.
- g. CBS has a significant financial interest in relation to the company that is subject of this analysis.

In this report, the following conflicts of interests are given at the time, when the report has been published: d, f

CBS and/or its employees or clients may take positions in, and may make purchases and/ or sales as principal or agent in the securities or related financial instruments discussed in this analysis. CBS may provide investment banking, consulting, and/ or other services to and/ or serve as directors of the companies referred to in this analysis. No part of the authors compensation was, is or will be directly or indirectly related to the recommendations or views expressed.

Recommendation System:

Close Brothers Seydler Research AG uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 6 months:

BUY: The expected performance of the share price is above +10%.

HOLD: The expected performance of the share price is between 0% and +10%.

SELL: The expected performance of the share price is below 0%.

Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
30 July 2010	BUY (Initiating Coverage)	EUR 2.00	EUR 2.80
12 August 2010	BUY (Company Update)	EUR 2.26	EUR 2.90

Risk-scaling System:

Close Brothers Seydler Research AG uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 6 months:

LOW: The volatility is expected to be lower than the volatility of the benchmark

MEDIUM: The volatility is expected to be equal to the volatility of the benchmark

HIGH: The volatility is expected to be higher than the volatility of the benchmark

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer group comparisons, historical valuation approaches, discounting models (DCF, DDM), break-up value approaches or asset valuation approaches. The valuation models are dependent upon macroeconomic measures such as interest, currencies, raw materials and assumptions concerning the economy. In addition, market moods influence the valuation of companies. The figures taken from the income statement, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks. These may change at any time without prior notice.

The opinions and forecasts contained in this report are those of the author alone. Material sources of information for preparing this report are publications in domestic and foreign media such as information services (including but not limited to Reuters, VWD, Bloomberg, DPA-AFX), business press (including but not limited to *Börsenzeitung*, *Handelsblatt*, *Frankfurter Allgemeine Zeitung*, *Financial Times*), professional publications, published statistics, rating agencies as well as publications of the analysed issuers. Furthermore, discussions were held with the management for the purpose of preparing the analysis. Potentially parts of the analysis have been provided to the issuer prior to going to press; no significant changes were made afterwards, however. Any information in this report is based on data considered to be reliable, but no representations or guarantees are made by the author with regard to the accuracy or completeness of the data. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. Possible errors or incompleteness of the information do not constitute grounds for liability, neither with regard to indirect nor to direct or consequential damages. The views presented on the covered company accurately reflect the personal views of the author. All employees of the author's company who are involved with the preparation and/or the offering of financial analyzes are subject to internal compliance regulations.

The report is for information purposes, it is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the securities mentioned in this report. Any reference to past performance should not be taken as indication of future performance. The author does not accept any liability whatsoever for any direct or consequential loss arising from any use of material contained in this report. The report is confidential and it is submitted to selected recipients only. The report is prepared for professional investors only and it is not intended for private investors. Consequently, it should not be distributed to any such persons. Also, the report may be communicated electronically before physical copies are available. It may not be reproduced (in whole or in part) to any other investment firm or any other individual person without the prior written approval from the author. The author is not registered in the United Kingdom nor with any U.S. regulatory body.

It has not been determined in advance whether and in what intervals this report will be updated. Unless otherwise stated current prices refer to the closing price of the previous trading day. Any reference to past performance should not be taken as indication of future performance. The author maintains the right to change his opinions without notice, i.e. the opinions given reflect the author's judgment on the date of this report.

This analysis is intended to provide information to assist institutional investors in making their own investment decisions, not to provide investment advice to any specific investor.

By accepting this report the recipient accepts that the above restrictions are binding. German law shall be applicable and court of jurisdiction for all disputes shall be Frankfurt am Main (Germany).

This report should be made available in the United States solely to investors that are (i) "major US institutional investors" (within the meaning of SEC Rule 15a-6 and applicable interpretations relating thereto) that are also "qualified institutional buyers" (QIBs) within the meaning of SEC Rule 144A promulgated by the United States Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Securities Act") or (ii) investors that are not "US Persons" within the meaning of Regulation S under the Securities Act and applicable interpretations relating thereto. The offer or sale of certain securities in the United States may be made to QIBs in reliance on Rule 144A. Such securities may include those offered and sold outside the United States in transactions intended to be exempt from registration pursuant to Regulation S. This report does not constitute in any way an offer or a solicitation of interest in any securities to be offered or sold pursuant to Regulation S. Any such securities may not be offered or sold to US Persons at this time and may be resold to US Persons only if such securities are registered under the Securities Act of 1933, as amended, and applicable state securities laws, or pursuant to an exemption from registration.

This publication is for distribution in or from the United Kingdom only to persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom or any order made there under or to investment professionals as defined in Section 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is not intended to be distributed or passed on, directly or indirectly, to any other class of persons.

This publication is for distribution in Canada only to pension funds, mutual funds, banks, asset managers and insurance companies.

The distribution of this publication in other jurisdictions may be restricted by law, and persons into whose possession this publication comes should inform themselves about, and observe, any such restrictions. In particular this publication may not be sent into or distributed, directly or indirectly, in Japan or to any resident thereof.

Responsible Supervisory Authority:
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin, Federal Financial Supervisory Authority)
Graurheindorferstraße 108
53117 Bonn
and
Lurgiallee 12
60439 Frankfurt

 Close Brothers Seydler
Research AG

Schillerstrasse 27 - 29
60313 Frankfurt am Main
www.cbseydlerresearch.ag
Tel.: 0049 - (0)69 - 97 78 45 60