

16 December 2010

## 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	1.4	0.0	N/A	N/A
12/11e	59.7	0.2	(0.3)	0.0	N/A	N/A

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

### Investment summary: An early return

Evotec has formed a €250m alliance with MedImmune (AstraZeneca) to develop a novel, biological treatment EVT 770 for diabetes. This is the first deal that Evotec has entered in the metabolic disease area, and providing a quick return on its acquisition of DeveloGen in September. Evotec is optimistic that the underlying science used to identify EVT 770 can be used to develop other biological drugs and novel small molecule products to treat various metabolic diseases.

#### Discovery alliance with MedImmune

The discovery alliance with MedImmune will develop novel treatments for diabetes targeting beta cell generation. MedImmune gains the rights to the biological drug, EVT 770, and a pipeline of selected additional secreted factors. Evotec will receive a €5m upfront payment, ongoing research fees, and potentially more than €250m in milestone payments and significant royalties (although 30% of any payments received will be paid to the original shareholders of DeveloGen).

#### Early return on DeveloGen acquisition

This alliance agreement gives Evotec an early return on its acquisition of DeveloGen, which was completed in September 2011 for up to €14m in shares. The deal also removes all financial obligations from the further development of EVT 770. All the proceeds from any future discovery alliances using DeveloGen's platform will solely belong to Evotec.

#### Potential of regenerative medicine platform

EVT770 is derived from a protein identified as being important in generating beta cells by DeveloGen. Evotec hopes that the underlying science can be used to develop novel small molecule treatments for diabetes and treatments for diseases such as chronic kidney disease and heart disease.

#### Valuation: Raising valuation to €370m

We have increased our DCF derived valuation of Evotec by €20m to €370m, primarily because of the potential development milestones that Evotec might earn from the new alliance. However we have made no changes to our financial forecasts.

Price €2.83  
Market Cap €327m

Share price graph

#### Share details

Code EVT  
Listing Frankfurt, Prime Standard  
Sector Pharmaceuticals & Biotech  
Shares in issue 132.7m

#### Price

52 week High Low  
€2.95 €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	44.1
EV/Sales	5.7	4.7	4.5
ROE	N/A	N/A	N/A

#### Revenues on geography

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

#### Analysts

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**Exhibit 1: Summary of financial statements**

Year end 31 December	€'000s	2007	2008	2009	2010e	2011e	2012e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
<b>Revenue</b>		<b>32,885</b>	<b>39,613</b>	<b>42,683</b>	<b>53,743</b>	<b>59,669</b>	<b>68,620</b>
Cost of Sales		(24,862)	(21,977)	(24,262)	(30,254)	(34,011)	(39,113)
Gross Profit		8,023	17,636	18,421	23,489	25,658	29,506
<b>EBITDA</b>		<b>(40,271)</b>	<b>(40,689)</b>	<b>(15,547)</b>	<b>2,099</b>	<b>3,213</b>	<b>5,460</b>
<b>Operating Profit (before GW and except.)</b>		<b>(46,624)</b>	<b>(44,942)</b>	<b>(19,157)</b>	<b>1,152</b>	<b>(389)</b>	<b>1,986</b>
Intangible Amortisation		(2,589)	(553)	(455)	(425)	(574)	(571)
Exceptionals/Other		(6,565)	(27,715)	(22,687)	0	0	0
<b>Operating Profit</b>		<b>(55,778)</b>	<b>(73,210)</b>	<b>(42,299)</b>	<b>727</b>	<b>(964)</b>	<b>1,415</b>
Net Interest		4,006	(2,760)	(2,520)	502	589	756
Other		36,392	0	0	0	0	0
<b>Profit Before Tax (norm)</b>		<b>(42,618)</b>	<b>(47,702)</b>	<b>(21,677)</b>	<b>1,655</b>	<b>199</b>	<b>2,741</b>
<b>Profit Before Tax (FRS 3)</b>		<b>(15,380)</b>	<b>(75,970)</b>	<b>(44,819)</b>	<b>1,229</b>	<b>(375)</b>	<b>2,171</b>
Tax		(419)	(1,911)	(363)	(309)	(537)	(618)
Deferred tax		4,643	(406)	(315)	(454)	(0)	(0)
<b>Profit After Tax (norm)</b>		<b>(43,037)</b>	<b>(49,613)</b>	<b>(22,040)</b>	<b>1,345</b>	<b>(338)</b>	<b>2,124</b>
<b>Profit After Tax (FRS 3)</b>		<b>(11,156)</b>	<b>(78,287)</b>	<b>(45,497)</b>	<b>466</b>	<b>(912)</b>	<b>1,553</b>
Average Number of Shares Outstanding (m)		71.8	95.2	106.8	109.5	116.1	117.6
EPS - normalised (c)		(59.9)	(52.1)	(20.6)	1.4	(0.3)	1.8
EPS - FRS 3 (c)		(15.5)	(8.2)	(42.6)	0.6	(0.8)	1.3
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	5.4	8.0
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A	N/A
<b>BALANCE SHEET</b>							
<b>Fixed Assets</b>		<b>96,037</b>	<b>89,822</b>	<b>77,642</b>	<b>96,868</b>	<b>95,077</b>	<b>93,777</b>
Intangible Assets		76,399	60,455	45,567	75,191	74,616	74,046
Tangible Assets		18,561	18,468	19,162	18,587	17,371	16,642
Other		1,077	10,899	12,913	3,090	3,090	3,090
<b>Current Assets</b>		<b>111,841</b>	<b>93,078</b>	<b>68,957</b>	<b>82,656</b>	<b>86,030</b>	<b>92,041</b>
Stocks		2,394	2,139	2,425	3,730	3,727	4,286
Debtors		5,137	2,531	4,510	5,890	5,722	5,640
Cash		93,676	84,098	58,358	67,224	70,768	76,301
Other		10,634	4,310	3,664	5,813	5,813	5,813
<b>Current Liabilities</b>		<b>(24,337)</b>	<b>(21,826)</b>	<b>(26,445)</b>	<b>(28,914)</b>	<b>(29,661)</b>	<b>(32,207)</b>
Creditors		(23,040)	(19,247)	(17,358)	(17,191)	(18,695)	(21,241)
Short term borrowings		(1,297)	(2,579)	(9,087)	(11,723)	(10,966)	(10,966)
<b>Long Term Liabilities</b>		<b>(12,988)</b>	<b>(11,215)</b>	<b>(8,667)</b>	<b>(17,936)</b>	<b>(18,079)</b>	<b>(18,290)</b>
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)	(15,079)	(15,290)
<b>Net Assets</b>		<b>170,553</b>	<b>149,859</b>	<b>111,487</b>	<b>132,674</b>	<b>133,368</b>	<b>135,321</b>
<b>CASH FLOW</b>							
<b>Operating Cash Flow</b>		<b>(32,726)</b>	<b>(42,562)</b>	<b>(19,915)</b>	<b>(610)</b>	<b>7,452</b>	<b>8,637</b>
Net Interest		1,590	2,116	(29)	(63)	(247)	(205)
Tax		(536)	(832)	(1,909)	(391)	(517)	(154)
Capex		(4,349)	(3,447)	(1,893)	(2,510)	(2,387)	(2,745)
Acquisitions/disposals		42,245	34,491	0	1,202	0	0
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)	4,302	5,533
<b>Opening net debt/(cash)</b>		<b>(69,841)</b>	<b>(83,254)</b>	<b>(81,775)</b>	<b>(57,750)</b>	<b>(55,516)</b>	<b>(59,817)</b>
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)
<b>Closing net debt/(cash)</b>		<b>(83,254)</b>	<b>(81,775)</b>	<b>(57,750)</b>	<b>(59,218)</b>	<b>(59,817)</b>	<b>(65,350)</b>

Source: Edison Investment Research, Evotec accounts

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