

The Partner of Choice

Evotec provides a full range of drug discovery services to the pharma industry, largely in the context of long-term R&D alliances. The company targets the sweet spot of the R&D outsourcing market by focusing on the fastest-growing segment: discovery stage R&D. Further, Evotec's pipeline programs provide upside potential through milestones and royalties while downside risk is borne by Evotec's partners, who fully fund development. We initiate coverage with a BUY and €3.8 price target.

Fiscal Year (31/12)	2009	2010E	2011E	2012E
Revenues (€ m)	42.7	53.5	65.0	88.9
EBITDA (€ m)	-24.7	4.0	7.5	26.0
EBITA (€ m)	-42.9	0.3	5.5	23.3
Adj. Net profit (€ m)	-45.4	0.3	5.5	23.3
Adj. EPS (€)	-0.48	0.00	0.05	0.20
EPS Change	nm	nm	1,854.0%	322.6%
CFPS (€)	-0.29	0.04	0.06	0.22
DPS (€)	0.00	0.00	0.00	0.00
PE	nm	nm	63.0	14.9
EV/EBITDA	-4.0	57.3	45.8	12.5
FCF Yield	-26.6%	6.4%	-1.7%	5.2%
Dividend Yield	0.0%	0.0%	0.0%	0.0%

Source: Company Data, Kempen & Co Estimates

- Business model focused on outsourcing, alliances and low risk** Evotec provides a full range of drug discovery services to the pharma industry, from target validation to early clinical development. These are provided mostly in the context of long-term R&D alliances, which are funded by Evotec's partners and therefore low-risk.
- Evotec positioned in the sweet spot of R&D outsourcing** As outsourcing of pharmaceutical R&D continues to grow, Evotec is focused on the fastest growing segment of the market. The "sweet spot" lies in discovery stage R&D, where big pharma is increasing its investments to ensure sufficient capacity to produce quality clinical pipelines.
- Pipeline programs provide upside** Evotec's most valuable pipeline programs address markets with blockbuster potential and provide upside through milestones and royalties. A defining feature of Evotec's partnered pipeline programs is that they are fully funded by Evotec's partners and therefore low risk (i.e. Evotec's partners bear all the financial risk).
- Valuation points to €3.8 price target** Using a rNPV and DCF approach we arrive at a value of €0.8 per share for EVT101/103, €0.4 per share for DiaPep277 and €0.2 per share for EVT770. The services division contributes €1.6, the milestones from the Boehringer Ingelheim alliances €0.3, and net cash €0.6 per share. The sum-of-the-parts points to a price target of €3.8 per share.
- Investment case** By focusing on the outsourcing of discovery stage R&D Evotec is targeting the fastest growing segment of the R&D outsourcing trend. The company's drug-discovery focused business model generates stable revenues in the form of fee-for-service contracts, upfront and milestone payments, with future upside to come from royalties on approved products. With all partnered R&D programs fully funded by its alliance partners, Evotec provides biotech exposure with minimum risk.

Rating

BUY

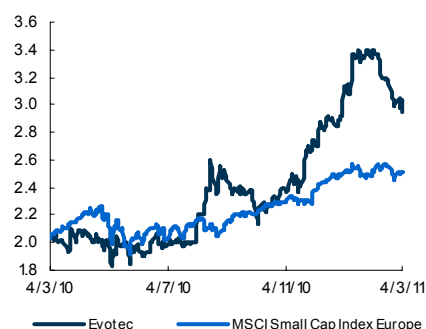
Price target (12m) **€3.80**

Closing price (4 March 2011) **€2.94**

Upside / downside **29.3%**

Date **7 March 2011**

EVT GY vs MSCI Small Cap Index Europe



Source: Factset

Price Performance (%)	-1m	-3m	-12m
Absolute	-12.8%	8.6%	44.8%
Rel. to MSCI Small Cap Index Europe	-12.0%	3.0%	17.2%

Source: Factset

Company data

52-Week range	€1.83 - 3.40
Market cap	€347.5m
Number of shares	118.2m
Free float	76%
Average daily volume	408,896

Company data

Bloomberg / Reuters	EVT GY / EVT.DE
Next announcement	24 March 2011
	FY 2010 Results

Analysts

Mark Pospisilik
+31 (0)20 348 8481
mark.pospisilik@kempen.nl

Sachin Soni
+31 (0)20 348 8493
sachin.soni@kempen.nl

www.kempenresearch.nl
Bloomberg: KEMP <GO>

Contents

Business model focused on outsourcing, strategic alliances and low risk	3
Unique platforms, disease expertise and capabilities distinguish Evotec from the field	3
Fully funded alliances eliminate downside risk, preserve upside potential	4
Spending on proprietary R&D strictly limited, focused on growth opportunity in discovery	4
In the sweet spot of outsourcing and discovery	5
Evotec is riding the R&D outsourcing wave.....	5
Evotec focused on 'sweet spot' in early stage R&D	6
Platforms and expertise form basis of alliances	7
Technology portfolio forms foundation for outsourcing business	7
Acquisitions add pipeline programs and competitive advantage in key disease areas	9
DeveloGen acquisition brought assets, alliances and expertise	9
Kinaxo acquisition brought oncology expertise, alliances and platforms	9
Pipeline of unique programs provides upside	10
EVT 101/103: a potential blockbuster for depression.....	10
DiaPep277: A breakthrough in Type I diabetes.....	12
EVT 770: Evotec is a leader in the field of regenerative medicine	13
Alliances provide short term revenues and long-term upside potential	15
Services Division is the foundation of Evotec's operations	16
Sum-of-the-parts points to attractive valuation	17
Investment case.....	17
Newsflow.....	17
Appendix	18
Shareholder Structure	18
Management Team	18
Supervisory Board	19



Business model focused on outsourcing, strategic alliances and low risk

Evotec primarily focuses on drug discovery, letting partners handle the more expensive and binary clinical development of drug candidates.

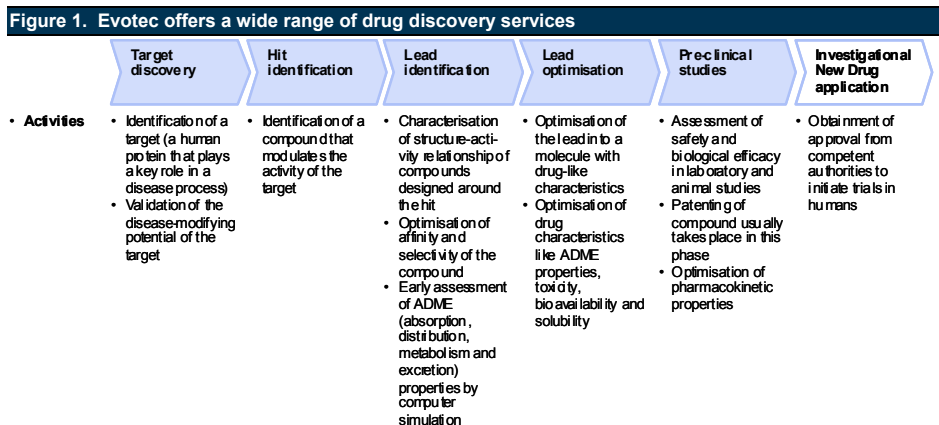
Evotec provides a wide range of drug discovery services to the pharmaceutical and biotech industries, extending from target validation to early clinical development. The drug discovery services are provided primarily in the context of integrated R&D alliances, but also as part of fee-for-service arrangements. The company focuses on early stage drug discovery and development, letting its partners handle the more expensive and binary clinical stages of drug development.

A distinguishing feature of Evotec's business model is that it explicitly limits investment in its early-stage proprietary pipeline projects and completely avoids investment in the clinical development of its proprietary pipeline programs. By avoiding full-scale drug development and investment in late-stage projects the company remains focused on a high growth market for drug discovery outsourcing in which it is a leader, and reduces risk.

Unique platforms, disease expertise and capabilities distinguish Evotec from the field

Evotec provides a full range of drug discovery services, from target validation to early clinical development.

The hallmark of Evotec's business is its ability to offer a wide range of drug discovery services in an integrated service offering, effectively handling the full spectrum of drug discovery processes, from target validation to early clinical development. These services are provided in the context of both fee-for-service contract research and integrated drug discovery alliances with pharma partners.



Source: Kempen & Co estimates

Evotec's portfolio of proprietary technology platforms that enable it to provide partners with unique capabilities over and above its full spectrum service offering. The platforms have been developed in-house and brought in through acquisitions (e.g. Zebrafish, DeveloGen and Kinaxo Biotechnology) and are described in further detail below.

Evotec focuses primarily on a few specific therapeutic areas, in which it is recognized as having particular expertise. These include neurology, pain, oncology and metabolic diseases (e.g. obesity, diabetes). This therapeutic area expertise, together with the wide range of services and portfolio of proprietary technologies places Evotec in the top ranks of CRO's and drug discovery partners.



Fully funded alliances eliminate downside risk, preserve upside potential

All of Evotec's drug discovery alliances have one feature in common: they are fully funded, with Evotec's partner bearing 100% of the costs.

Although no two deals or alliances are the same, all of Evotec's partnerships do have one thing in common: Evotec's costs are 100% covered, meaning that failure of any one program to advance or to meet a milestone would not entail any financial risk for Evotec. In addition to their low risk profile, Evotec's alliances also provide significant upside potential in the event of success, through milestones and royalties.

Evotec provides drug discovery services via a range of deal types and structures however more than 60% of its revenues are generated through drug discovery alliances under which Evotec is eligible for success-based milestones and royalties on eventual sales (the percentage of revenues from alliances is expected to rise as Evotec signs more deals). The remainder of Evotec's revenues come from fee-for-service contracts and new deals on Evotec's proprietary pipeline programs. Each of these deal types and structures has different upside, risk profile and margins:

Each of Evotec's deals has a different upside, risk profile and margin.

- a) **Fee-for-service drug discovery contracts**, with higher margins but no milestones or royalties.
- b) **Discovery alliances** in which Evotec shares in the upside of the partners' research success through milestones and royalties and in return accepts a lower margin (e.g. Boehringer Ingelheim).
- c) **Product development partnerships** in which Evotec owns the assets being developed but the partner funds the development. These are cash neutral in the short term, but hold upside potential in the form of milestones and royalties.
- d) **Development of Evotec's proprietary pipeline programs**, which generate revenues only when they are partnered. Evotec has explicitly limited its investment in these programs to €10 million per year.

Table 1. Evotec generates the majority of its revenues from discovery alliances

Deal Structures	Cash Impact	Additional Upside for Evotec
Fee-for-service Drug Discovery	Cash generative	Neutral
Discovery Alliances	Cash generative	Milestones and royalties
Product Development Partnerships	Neutral	Milestones and royalties
Proprietary Pipeline	Investment required by Evotec	Dependent of partnering

Source: Kempen & Co estimates

Evotec's goal is to build long-term alliances with its partners, such that Evotec becomes an integral part of the partners' R&D activities. The company leverages its high quality and broad range of services, technology platforms, and expertise in specific therapeutic areas to become a trusted long-term R&D partner.

Spending on proprietary R&D strictly limited, focused on growth opportunity in discovery

Evotec is distinguished from the majority of biotech companies in that it explicitly limits spending on proprietary programs.

Evotec is distinguished from the majority of biotech companies in that it explicitly limits spending on proprietary programs (i.e. programs that are not funded by an external partner). The company limits spending to €10 million per year, and focuses its efforts on discovery stage and phase I projects with a view to partnering them for clinical development. Evotec does not contemplate carrying out phase II or phase III clinical development of proprietary drug candidates. Evotec's clinical stage assets, which are significantly more expensive to develop, are only selectively carried forward without full funding support from an alliance partner.



In the sweet spot of outsourcing and discovery

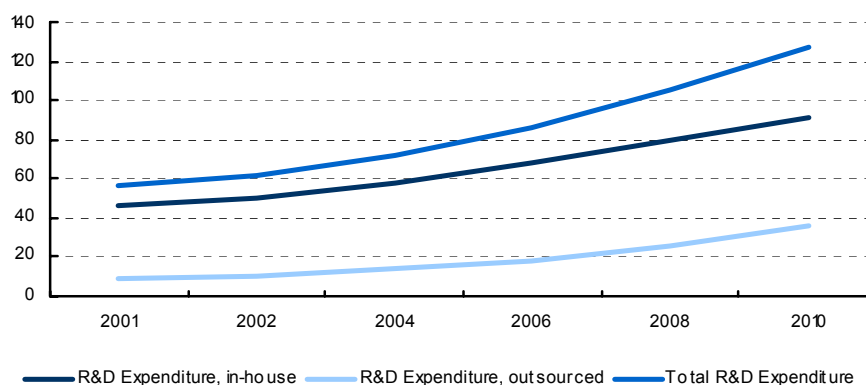
Large pharmaceutical and biotechnology companies are forced to outsource part of their drug discovery and drug development activities in order to address their persistently high drug development costs and low R&D productivity. Outsourcing to more efficient partners such as Evotec makes big pharma's R&D programs faster, more cost-effective and more innovative. The R&D outsourcing trend is well established and shows no signs of slowing down. In particular, outsourcing of discovery stage activities, the earliest stage of drug R&D, looks set to grow the fastest. By focusing on discovery services Evotec is poised to capitalize on this trend.

Evotec is riding the R&D outsourcing wave

In recent years there has been a surge in R&D outsourcing (e.g. services such as analytical chemistry and toxicology). These activities have been generally considered to be non-strategic and therefore could be outsourced to third parties who could match or exceed big pharma in terms of quality and cost.

In recent years there has been a surge in R&D outsourcing.

Figure 2. Global pharmaceutical R&D outsourcing market, 2001-2010 (USD, bln)



Source: Business Insights, Pharmaceutical Outsourcing Strategies

R&D outsourcing has historically been driven by considerations of cost, however as big pharma continues to struggle to fill its pipelines an increasingly important driver is R&D productivity. In other words, the key need for big pharma is to reduce costs without compromising R&D quality; ideally big pharma partners will actually be able to improve the quality of their R&D and reduce costs. In this context companies such as Evotec, that have integrated R&D alliances with pharma partners, are clearly distinguished from competitors that do not. Integrated drug discovery alliances require a high level of trust in the partner's technology, and quality of work and decision making.

In their R&D programs pharmas continuously struggle with stop-loss decisions (i.e. termination of a target, drug candidate or program), prioritization (i.e. competition between candidates or programs), and resourcing (i.e. how quickly to push a program and how much data to collect). Stop-loss decisions are particularly important; if a decision is made too late it can result in the loss of hundreds of millions of Euros which are spent on developing a candidate that ultimately fails.

Big pharma is looking for partners to improve speed and quality of decision-making. This is the niche that Evotec is looking to fill.

It is precisely this kind of shortcoming that big pharma is looking to address when outsourcing R&D, rather than merely looking for cheap service providers. Big pharma is looking for partners that will help them to increase speed and improve decision-making. This is precisely the niche that Evotec is looking to fill.



Evotec focused on 'sweet spot' in early stage R&D

The 'sweet spot' of R&D lies prior to Phase II.

Evotec is focused on the 'sweet spot' of pharmaceutical R&D, which lies prior to Phase II. Companies need to ensure that they have sufficient pre-phase II or discovery stage capacity in order to produce phase I ready molecules in sufficient number and of sufficient quality. Therefore the industry has started to substantially increase investments in the earlier stages of drug discovery and there has been a significant increase in the number of drug candidates entering Phase I clinical trials.

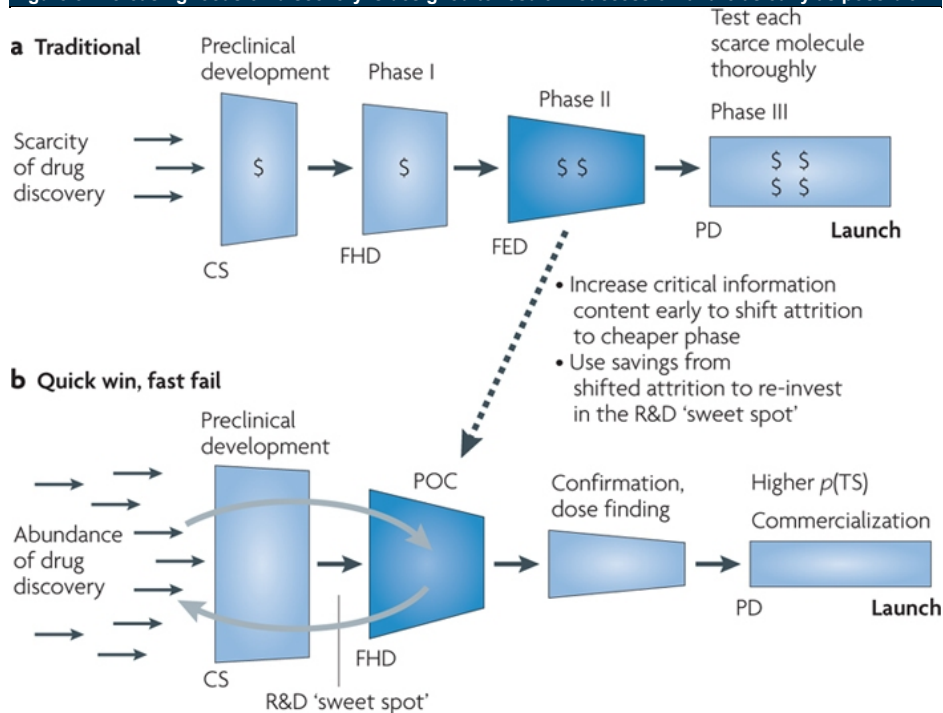
There are two major drivers behind this shift:

- a) **Attrition:** To launch a single new drug a pharma company requires approximately nine Phase I drug candidates, 15 pre-clinical candidates, 20 leads, and 25 hits. (*Nature Reviews, Drug Discovery*, 203-214, Volume 9, March 2010)
- b) **Late stage failures are expensive:** Historically the clinical development stages have seen high levels of attrition due to lack of efficacy versus placebo or standard of care. From 106 failures of phase II trials taking place between 1990 and 2007, it has been reported that 45% were due to lack of efficacy versus placebo, and 24% to lack of differentiation versus the standard of care (*Nature Reviews Drug Discovery* 8, 609-610 (August 2009)).

The increasing focus on the discovery stages is designed to result in the success or failure of drug candidates as early as possible in development.

The renewed focus on the discovery stages is designed to result in the success or failure of drug candidates as early as possible. The idea behind it is that, given that the vast majority of drug candidates are destined to fail, the faster and less expensively they can be made to fail, the better. In this context technical uncertainty related to a given drug candidate is intentionally reduced before the expensive later development stages. This results in a smaller number of new drug candidates moving into phase II and III, but the ones that do advance have a higher probability of success.

Figure 3. Increasing focus on discovery is designed to result in success or failure as early as possible



Source: *Nature Reviews, Drug Discovery*



Increased spending on discovery stage outsourcing is taking place despite R&D cuts because it results in cost savings.

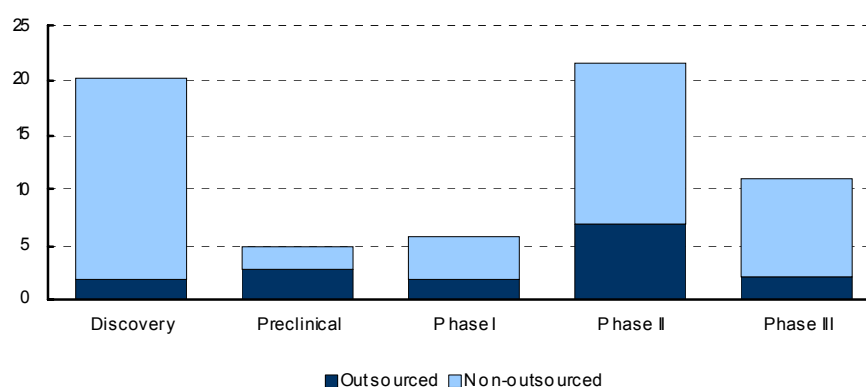
The increase in spending on discovery stage outsourcing is taking place despite the R&D cuts being made by many of the big pharmas. This is because it results in more efficient use of resources and therefore cost-savings. As pharma increasingly focuses on its core competencies of clinical development, regulatory applications and marketing, the “non-core” discovery stage activities are increasingly being outsourced. The result is a large untapped opportunity in discovery outsourcing.

Table 2. Outsourcing of discovery stage activities provides the largest growth opportunity (USD, 2008)

Phase	Outsourced	Non-outsourced	Total Expenditure	% Currently Outsourced
Discovery	1.8	18.4	20.2	9%
Preclinical	2.7	2.3	5	54%
Phase I	1.9	3.9	5.8	33%
Phase II	7	14.6	21.6	32%
Phase III	2	8.9	10.9	18%

Source: Company Data

Figure 4. Outsourcing of discovery stage activities provides the largest growth opportunity



Source: Kempen & Co estimates

Discovery receives the greatest portion of R&D expenditure, after Phase II. However discovery stage R&D currently has the lowest rate of outsourcing. Given the trends discussed above, the discovery segment represents the best growth opportunity in the R&D outsourcing market.

Platforms and expertise form basis of alliances

Technology portfolio forms foundation for outsourcing business

Evotec does not have one unique, defining technology platform. Rather, as a one-stop-shop for drug discovery which seeks to integrate itself with partners' drug discovery programs Evotec is accumulating a portfolio of unique technologies that act as a comprehensive tool kit for early-stage pharma R&D. Evotec's portfolio includes:

- EVOscreen: a proprietary ultra high throughput screening platform.
- EVOLution: a fragment-based drug discovery platform, which allows screening to identify chemical starting points for “well-screened” and/or challenging targets.
- Compound Library: Evotec also has a collection of 250,000 small molecule compounds, which includes >90,000 non-commercially available compounds. Through a recently announced collaboration with ChemBridge, Evotec has increased the size of its collection through by an additional 110,000 compounds.

Evotec does not have one unique, defining technology platform, it has a portfolio of technologies that act as a comprehensive tool kit for R&D.



- d) Zebrafish: Zebrafish are well-characterised model organisms and are used in the screening of potential drug candidates, providing whole organism data concerning the safety and toxicity of drug candidates at an early stage.
- e) In addition, over the years Evotec has developed numerous assays and disease models, including over 320 biochemical, cellular and functional assays, to which it is able to provide its partners access.

The acquisition of Develogen added target discovery and validation capabilities in metabolic diseases and regenerative medicine.

With the acquisition of Develogen in 2010 Evotec added to its portfolio target discovery and validation capabilities in the fields of metabolic (e.g. diabetes, obesity) diseases and regenerative medicine. Previously Evotec had facilities to undertake all parts of the drug discovery process, however did not yet have a proprietary target identification system.

In early 2011, with the acquisition of Kinaxo, Evotec added additional proprietary technologies:

- a) KinAffinity enables quantitative profiling of small molecule compounds against a panel of drug targets known as kinases, which are becoming increasingly important in the fields of oncology and inflammation. KinAffinity enables: profiling of small molecule kinase inhibitors in any cell line or tissue; identification of novel kinase targets; kinase inhibitor selectivity and binding affinity analysis; and lead compound optimization.
- b) PhosphoScout provides quantitative analysis of the more than 15,000 phosphorylation sites in living cells, animal models and patient samples. Quantification of phosphorylation patterns provides insight into drugs' mode of action and is therefore a powerful method to unveil the mechanisms of both cellular resistance and a drug's effect. PhosphoScout enables: biomarker discovery; drug mode-of-action analysis in vivo; and identification of new drug targets.
- c) Cellular Target Profiling combines proteomics with mass spectrometry to provide a phenotypic picture of small molecule drug candidates' interactions. Since conventional target-based drug discovery has shown rather disappointing results in terms of delivering efficient new drugs, drug development companies are taking a 'phenotypic' approach (i.e. screening compounds for a particular desired response prior to selecting a specific target). This platform is particularly valuable in the development of cancer therapeutics.

Kinaxo's platforms and capabilities have demonstrated their commercial potential through several partnerships.

The platforms and capabilities acquired from Kinaxo have already demonstrated their commercial potential. The platforms formed the basis for Kinaxo's several partnerships with big pharma, its rapid revenue growth and profitability.

Evotec also complements its proprietary technologies via technology partnerships:

- a) Diamond Light Source: Evotec has access to diamond Light Source's synchrotron facility which enables the collection of high quality X-ray diffraction data.
- b) DiscoverRx: Evotec accesses and co-markets assay and screening platforms applicable to every major class of drug target, including GPCRs, kinases, proteases, nuclear hormone receptors, transcription factors, and secreted proteins.
- c) Hypha Discovery: Through its partnership with Hypha, Evotec has access to over 2,500 strains of fungi and 10,000 extracts and fractions from



fermentations of over 2,500 strains of fungi – a unique source of compounds of high chemical novelty.

With a broad portfolio of unique platform technologies Evotec is positioning itself as a one-stop shop for high end drug discovery.

With a broad-based and expanding portfolio of unique, proven platform technologies Evotec is positioning itself as a one-stop shop for high end drug discovery.

Acquisitions add pipeline programs and competitive advantage in key disease areas

DeveloGen acquisition brought assets, alliances and expertise

The acquisition of DeveloGen brought pipeline programs, drug discovery alliances, and deep expertise in metabolic diseases and regenerative medicine, which are expected to experience strong growth in the coming years. Evotec acquired DeveloGen in July 2010 in a shares and cash deal that included a payment of €2 million and the issue of 4 million Evotec shares. A payment of a further 3 million shares would be made related to certain representations and certain milestones, and unspecified cash earnout payments based on future milestone and royalty income generated from DeveloGen's pipeline programs.

The acquisition of DeveloGen added three drug discovery alliances and product development partnerships to Evotec's portfolio of core assets:

- a) An integrated discovery alliance with Boehringer Ingelheim on small molecules to treat insulin resistance (type 2 diabetes). The alliance includes ongoing research funding by Boehringer Ingelheim, potential milestones of up to €237 million for the lead compound, and single-digit royalties on sales.
- b) A development partnership with Andromeda (Teva) on DiaPep277, a synthetic peptide immunomodulator to treat type 1 diabetes in pivotal Phase III clinical development.
- c) A fully-funded discovery partnership with the Juvenile Diabetes Research Foundation. The lead candidate, DG770, is a growth factor that has potential in the treatment of both type 1 and type 2 diabetes. It is currently in lead optimisation and in pre-clinical studies has demonstrated: stimulation of beta cell proliferation and neogenesis; an increase in functional beta cell mass and a normalization of blood glucose levels; no effect on insulin sensitivity or insulin secretion efficacy.

The acquisition of DeveloGen added three drug discovery alliances and development partnerships.

Within 2 months of the DeveloGen acquisition Evotec signed a new deal with MedImmune for the development of a pre-clinical candidate (EVT770) that targets beta cell mass and has potential in the treatment of type 1 and 2 diabetes. It is notable that the deal included a €5 million upfront payment, research funding, €254 million in milestones and royalties on sales, for a drug candidate that is still in pre-clinical development.

Within 2 months of the DeveloGen acquisition Evotec signed a new deal with MedImmune in diabetes.

Kinaxo acquisition brought oncology expertise, alliances and platforms

In addition to its portfolio of proprietary drug discovery technologies, the acquisition of Kinaxo Biotechnologies GmbH brought oncology expertise and partnerships with a number of pharma companies, including JNJ, Daiichi Sankyo, Bayer Health Care, Roche, Takeda, Eisai, Boehringer Ingelheim and AstraZeneca.



Evotec will be able to generate synergies by integrating Kinaxo's technology platforms into existing alliances.

Evotec made the acquisition for approximately €12 million, including €3 million in cash, 2.6 million Evotec shares, plus earn-out payments of up to € 4m in cash, dependent on performance milestones. Evotec has estimated that Kinaxo will grow revenues at a rate of 30%, generating sales of €2.5m in 2011. We expect that Evotec will be able to generate significant synergies by integrating Kinaxo's technology platforms into Evotec's existing alliances, expanding the range of discovery services provided to Kinaxo's alliance partners and leveraging Kinaxo's oncology expertise into new alliances.

Pipeline of unique programs provides upside

Evotec's most valuable pipeline programs address markets with blockbuster potential and provide upside through milestones and royalties. A defining feature of Evotec's partnered pipeline programs is that they are fully funded by Evotec's partners. Therefore there is no downside risk to Evotec from the failure of these programs. The only financial risk to Evotec would be the loss of future revenues and milestones associated with the program (i.e. Evotec would not incur any losses, as all work on the programs is funded by partners).

EVT 101/103: a potential blockbuster for depression

EVT 101 is a potential blockbuster, being developed the rapidly growing Treatment Resistant Depression (TRD) segment of the multibillion Euro depression market. TRD is defined as clinical depression that has inadequately responded to at least two antidepressants.

Despite the shrinking market for anti-depressants the segment represents a significant growth opportunity for products with new mechanisms of action. The market for depression is estimated to be €15.6 billion globally, and in the seven major markets alone (US, Japan, Germany, UK, France, Italy, Spain) it is estimated to be approximately €9 billion in 2009 (Datamonitor).

According to Datamonitor, the depression market is expected to remain flat or even shrink slightly until 2018 due to patent expiries for some of the biggest-selling products: Effexor XR (Wyeth), Lexapro (Lundbeck) and Cymbalta (Eli Lilly). However this will have no effect on the growth of the market for patented and new products. Despite a fall in the overall value of the market, products with new mechanisms of action are expected to experience strong growth (7.6% CAGR from 2008-2018). Further, products currently in the pipeline with new mechanisms of action have the potential for a dramatic growth rate of 81% despite a slight decline in the overall market value.

Despite a fall in the overall value of the market, products with new mechanisms of action are expected to grow at 7.6%.

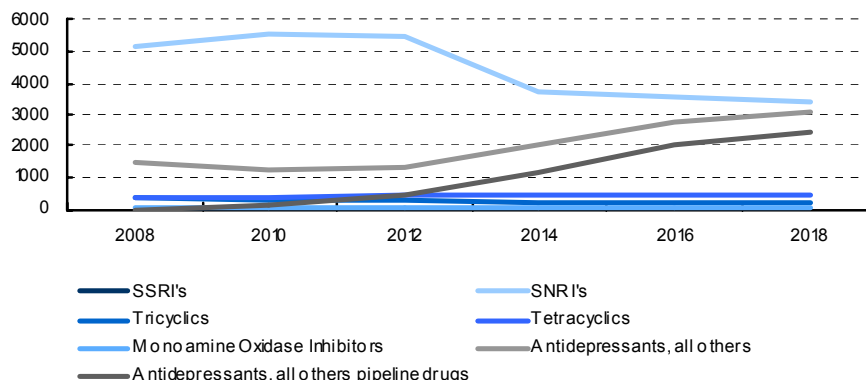
Table 3. Sales forecasts of major classes of antidepressant drugs in the 7 major markets (mIn €)

	2008	2010E	2012E	2014E	2016E	2018E	CAGR%
SSRI's	4539.2	4120.0	3135.4	2750.8	2600.0	2511.5	-5.7%
SNRI's	5147.7	5579.2	5514.6	3748.5	3552.3	3408.5	-4.0%
Tricyclics	349.2	322.3	297.7	281.5	272.3	266.2	-2.7%
Tetracyclics	365.4	383.8	418.5	425.4	423.1	422.3	1.5%
Monoamine Oxidase Inhibitors	40.0	44.6	46.9	47.7	48.5	48.5	1.9%
Herbal Antidepressants	41.5	43.1	43.1	41.5	40.8	39.2	-0.5%
Antidepressants, all others	1494.6	1254.6	1341.5	2013.1	2752.3	3098.5	7.6%
Antidepressants, all others pipeline drugs	0.0	98.5	410.8	1224.6	2056.9	2461.5	81.0%
Total	11977.7	11846.2	11208.5	10533.1	11746.2	12256.2	-2.0%

Source: Datamonitor

MOI = monoamine oxidase inhibitor; SNRI = serotonin and norepinephrine reuptake inhibitor; SSRI = selective serotonin reuptake inhibitor



Figure 5. Sales forecasts of major classes of antidepressant drugs in the 7 major markets (mln €)

Source: Kempen & Co estimates

With few effective treatment options, there is a high unmet need in treatment resistant depression.

With few effective treatment options, there is a high unmet need in treatment resistant depression. A 3,000 patient study (STAR*D) published in 2007 revealed that 30% of patients did not achieve remission of their depression after receiving several treatments. The poor remission rate achieved with current treatments indicates that there is significant market potential for products with new mechanisms of action. This is because the majority of the antidepressants currently on the market are essentially a variation on the theme that if you increase serotonin or norepinephrine you will be able to alleviate depression.

Due to the lack of treatment options and large size of the TRD market, anyone who develops an effective treatment will be able to take advantage of a large commercial opportunity. Owing to the lack of treatment options, TRD patients are treated with antipsychotic drugs (e.g. Abilify (Bristol Myers Squibb) and Seroquel (AstraZeneca)) or ketamine (the latter is known to induce schizophrenia and therefore its use is severely limited).

Evotec is Roche's ticket to break into the lucrative antidepressant market.

Evotec is Roche's ticket to break into the lucrative antidepressant market. Roche entered into a partnership with Evotec AG with a view to gaining a foothold in the €15 billion global market for antidepressants. Compared to its Big Pharma peers, Roche has both a limited psychiatry and central nervous system (CNS) franchise.

Under the agreement Roche will fully fund phase II studies of EVT 101 and phase I studies for EVT 103 (EVT 103 is a follow-up candidate to EVT 101). Roche has the option to buy back rights to EVT 100 and 103 following the completion of phase II, which would trigger a USD65 million payment to Evotec (we estimate this payment would occur in 2013). The total deal value for Evotec could reach USD300 million, including various milestones associated with the start and completion of phase III, and regulatory approvals at the FDA, EMA and in Japan, plus royalties. EVT101 entered Phase II trials in July 2010, is expected to complete recruitment in 2011, and will likely report results in 2012.

As a drug candidate targeting the central nervous system (CNS) EVT 101 is a high risk program. Development of treatments for CNS disorders are particularly tricky due to the need to cross the blood-brain-barrier and low tolerance for side effects and toxicity. However it is important to emphasize that this risk is entirely borne by Evotec's partner, Roche, which is fully funding development.



There is significant upside from our valuation as any product that works well in TRD could rapidly gain 50% market share.

Valuation

In view of the lack of effective treatments for TRD, EVT101/103 could achieve a large market share in the event it is approved. Nevertheless, in order to reflect the risk inherent in the program, in our valuation we have assumed a peak market share of 5% in the overall depression market (15% in treatment resistant depression). We believe there is significant upside from our valuation as any product that works well in TRD could rapidly gain 50% market share (i.e. 15% of the total depression market). Based on our assumptions we arrive at peak sales of €670 million, although it is clear that successful treatments for depression could easily achieve blockbuster status.

Table 4. EVT-101/103 Roche alliance (Treatment resistant depression)

€m	2010E	2011E	2012E	2013E	2014E	2015E
Phase	CII	CII	CII	CIII	CIII	CIII
Probability to market at start phase	30%	30%	30%	66%	66%	66%
Market size	15600	15600	15600	15600	15600	15600
Market share (%)	0%	0%	0%	0%	0%	0%
Sales revenue	0	0	0	0	0	0
Probability-weighted revenues	–	–	–	23.2	24.6	25.1
Probability-weighted cashflow	–	–	–	23.2	24.6	25.1
WACC	11.0%					
rNPV	97.6					
rNPV per share	0.8					

Source: Kempen & Co estimates

With the acquisition of DeveloGen, Evotec gained a drug candidate that is in pivotal phase III development.

DiaPep277: A breakthrough in Type I diabetes

With the acquisition of DeveloGen, Evotec gained a drug candidate that is currently in pivotal phase III development. DiaPep277 is a synthetic peptide immunomodulator to treat type 1 diabetes, which is being developed in partnership with Andromeda Biotech (in June 2009 Teva Pharmaceutical entered into an agreement with Andromeda for the worldwide marketing rights to DiaPep277 in return for funding support and an equity investment).

Type 1 diabetes: Disease and market size

It is estimated that approximately 0.37% of the population in the seven major markets has Type 1 diabetes, which translates into approximately 2.6 million patients. Type 1 diabetes is an autoimmune disease characterized by the destruction of pancreatic beta cells with the resultant loss of insulin secretion function. It has been historically referred to as “insulin-dependent diabetes” or “juvenile-onset diabetes” because it generally occurs in children, although it can also occur in adults.

Unlike the dramatic growth in type 2 diabetes, which is linked to rising obesity, poor diet and lack of exercise, type 1 diabetes is experiencing very modest growth. We have estimated that the patient population is growing at approximately 1% per year. The global market for type 1 diabetes non-insulin therapeutics is estimated to be growing faster, at approximately 6% annually, and to reach a total value of €3.3 billion by 2017. The growth drivers are the development of new products, the increase in the cost of treatment, and the growth of the patient population.

DiaPep277 has the potential to expand outside the diagnosed diabetes market, to those with pre-diabetes or with high risk for developing type 1 diabetes.

An autoimmune treatment such as DiaPep277 that preserves existing beta-cell function also has the potential to expand outside the diagnosed diabetes market, to those with pre-diabetes or with high genetic risk for developing type 1 diabetes. This is because DiaPep277 is directed at slowing the development of type 1 diabetes by preventing destruction of the beta cells. Although the subset of type 1 diabetes patients with existing beta cell function is relatively small, the potential to prevent or slow the progression diabetes present an opportunity to treat patients early and for long periods



of time. The potential benefit provided by such a treatment is significant, as it would enable patients who still have some insulin production capability to delay and/or reduce their injections of insulin.

Valuation

Given the lack of effective treatments for Type 1 diabetes, DiaPep277 could achieve a large market share if it is approved. Nevertheless, owing to the large number of competitors in this field, the novel mechanism of action in our valuation we have very conservatively assumed a peak market share of 5%. We believe there is significant upside from our valuation since any product that works well in slowing or preventing the progression of type 1 diabetes could be a blockbuster. Applying our assumptions we arrive at peak sales of €230 million.

Table 5. DiaPep277 - Andromeda/Teva (Type 1 Diabetes)

€m	2010E	2011E	2012E	2013E	2014E	2015E
Phase	CIII	CIII	CIII	RA	Market	Market
Probability to market at start phase	66%	66%	66%	88%	100%	100%
Market size	3000	3180	3371	3573	4787	4015
Market share (%)	0	0	0	0	0.02	0.04
Sales revenue	0	0	0	0	83.3	176.6
Probability-weighted revenues	0.0	0.0	5.2	8.0	17.3	6.4
Probability-weighted cashflow	0.0	0.0	5.2	8.0	17.3	6.4
WACC	11.0%					
rNPV	45.0					
rNPV per share	0.4					

Source: Kempen & Co estimates

Evotec's pre-clinical candidate EVT770 attracted a partnership that included a €5 million upfront, research funding, €254 million in milestones, and royalties on sales.

EVT 770: Evotec is a leader in the field of regenerative medicine

Shortly following the acquisition of DeveloGen, Evotec entered into a partnership with MedImmune for the development of a pre-clinical candidate (EVT770) that included a €5 million upfront payment, research funding, €254 million in milestones and royalties on sales. EVT770 targets beta cell mass, which is tightly linked to the development of both type 1 and 2 diabetes. EVT770 has been shown in pre-clinical studies to stimulate beta cell proliferation and neogenesis in vitro and in vivo. It is clear that EVT770 has major potential, however given its early stage of development its value consists largely of the milestones anticipated from MedImmune.



Table 6. EVT 770 - MedImmune (Type 1 and 2 Diabetes)

€m	2010E	2011E	2012E	2013E	2014E	2015E
Phase	PC	PC	PC	CI	CI	CII
Probability to market at start phase	12%	12%	12%	20%	20%	30%
Probability-weighted revenues	3.5	0.0	8.3	7.6	0.0	11.1
Probability-weighted cashflow	3.5	0.0	8.3	7.6	0.0	11.1
WACC	11.0%					
rNPV	25.4					
rNPV per share	0.2					

Source: Kempen & Co estimates

Proprietary Pipeline

In addition to the programs discussed above, Evotec has a number of programs that are not included in our valuation. Progress or deals on these programs would add upside to our valuation.

In addition to the programs discussed above, Evotec has a number of clinical and pre-clinical programs that are not included in our valuation (see Table 7). Any progress in these programs, which are available for partnering and/or at an early stage of development, would result in additional upside to our valuation.

Table 7. Evotec's other clinical and pre-clinical assets

Program Name	Partner	Therapeutic Area	Target / MOA	Status / Next milestone
EVT501	Proprietary	Cognition, narcolepsy	H3 antagonist	Phase I data expected in 2011 / 2012
EVT401	Proprietary	Rheumatoid arthritis, inflammation	P2X7 antagonist	Phase I complete
P2X3 / P2X2/3 antagonist	Proprietary	Neuropathic and inflammatory pain; urinary incontinence	P2X3 / P2X2/3 antagonist	Definition of pre-clinical development candidate
EVT 302	Proprietary	Alzheimer's disease	Monoamine Oxidase-B (MAO-B) inhibitor	Phase I
EVT 201	Jingxin Pharmaceutical	Insomnia	GABA _A Receptor Partial Positive Allosteric Modulator	Phase II trial start in China in 2011
Unknown	Boehringer Ingelheim	Neuropathic Pain	Unknown	Phase I data in 2011

Source: Kempen & Co estimates

Evotec has reduced its risk profile by explicitly limiting its spending on proprietary R&D to €10 million annually. The company will only selectively advance programs with out third-party funding, and therefore seeks to partner the proprietary assets above for further development.

EVT201 has been partnered for development in China with Jingxin Pharmaceutical and a phase II trial is expected to start in 2011. Evotec has decided not to continue in-house development of EVT 201 due to the investment needed for a decisive phase III clinical trial.



Alliances provide short term revenues and long-term upside potential

Evotec's discovery alliances enable Evotec to generate revenues in the short term from upfront payments, FTE and service fees and preclinical and early clinical milestones. The alliances also provide upside potential in the longer term Evotec in the form of late-stage clinical milestones, regulatory milestones and royalties, pending successful clinical development, regulatory proceedings and commercialization. The alliance partners bear all costs associated with drug development, allowing Evotec to limit its risk. Evotec's major partnerships are shown in Table 8.

Table 8. Evotec's major partnerships

Partner	Therapeutic Area	Financial details / Milestones / Royalties
Boehringer Ingelheim	CNS, Oncology, Inflammation	Various collaborations dating back to September 2004 and renewed several times. Includes milestones and royalties.
Boehringer Ingelheim	Metabolic / Diabetes	Research funding, €7m upfront, €237m in potential milestones, single-digit royalties.
MedImmune	Type 1 and 2 Diabetes	Research funding, €5m upfront, up to €254m in potential milestones'.
Ono	Protease targets	Multi-target, multi-year alliance dating back to March 2008. In December 2009, a milestone was achieved for progression into lead optimization.
Novartis	Pain	Evotec to carry forward candidates against a nominated target to pre-clinical testing, after which Novartis to will continue the development.
Genentech	CNS, Pain/Inflammation	A multi-target, multi-year alliance signed in May 2010.
CHDI	CNS; Huntington's	Multi-year alliance, extended twice since 2006, up to \$37.5m in research funding.
Biogen Idec	N/A	Assay development and HTS against a known target. Further targets may be added. Partnership extended in 2009 for four more years and expanded to include oncology.
Pfizer	Pain/Inflammation	Acquired in 2007 when Evotec bought Renovis. atments to relieve pain by targeting the ion channel, VR1 (vanilloid receptor 1).
Merck KGaA	CNS	Neurological target, multi-year collaboration.
InterMune	N/A	Collaboration began in early 2007.
Roche	Treatment resistant depression	Started in 2006. Roche has option to buy back after phase II.

Source: Kempen & Co estimates

Evotec's broadest relationship is with Boehringer Ingelheim, with collaborations spanning four therapeutic areas.

Evotec has its broadest relationship with Boehringer Ingelheim, with collaborations spanning four therapeutic areas. Evotec received €8.0 million in milestones from Boehringer Ingelheim in 2010 and as the programs continue to advance we expect the milestones to grow (the Boehringer Ingelheim alliances also contribute substantially to Evotec's service revenues, which are valued separately as part of Evotec's service division). We value the milestone component of the Boehringer Ingelheim collaborations separately from Evotec's development programs and contract research services revenue.



Table 9. Boehringer Ingelheim alliances are a source of significant milestones

€m	2010E	2011E	2012E	2013E	2014E	2015E
Phase	PC	PC	CI	CI	CII	CII
Probability to market at start phase	20%	20%	20%	20%	30%	30%
Milestones/ Upfronts	8	8	10	12	12	0
Royalties	0	0	0	0	0	0
Grants	0	0	0	0	0	0
Total revenues	8	8	10	12	12	0
Probability-weighted revenues	8.0	8.2	10.4	12.7	8.7	–
Probability-weighted cashflow	8.0	8.2	10.4	12.7	8.7	–
WACC	11.0%					
rNPV	34.7					
rNPV per share	0.3					

Source: Kempen & Co estimates

Services Division is the foundation of Evotec's operations

Since Evotec's numerous alliances and partnerships are fully-funded by its partners, a large part of its revenues come in the form of fees for R&D services. In addition, Evotec earns numerous milestones for its smaller alliances and partnerships. We have grouped these revenues together as a "Services Division" although Evotec has no such division *per se*. Although these revenues are not associated with the upside potential of the programs described and valued above, they represent a reliable stream of revenues and form the backbone of Evotec's operations.

Table 10. Evotec's "Services Division" generates stable revenues

Service division	2010	2011	2012	2013	2014	2015
in mln €						
Service income	42	51	58	67	77	89
Other milestone income	0	5	8	10	13	15
Revenues	42	56	66	77	90	104
Cost of goods sold	(27)	(33)	(37)	(42)	(48)	(55)
Gross profit	15	23	29	35	42	49
Selling, general and administrative	(15)	(17)	(18)	(19)	(20)	(21)
Research & Development	(8)	(8)	(8)	(8)	(8)	(8)
Operating Profit (exc. Depreciation)	(8)	(2)	3	8	14	19
Operating margin	-18%	-3%	5%	10%	15%	19%
Discounted operating profit	(8)	(2)	3	6	10	12
NPV	184					
NPV per share	1.6					

Source: Kempen & Co estimates



Sum-of-the-parts points to attractive valuation

We value Evotec in several parts parts, (i) the most valuable pipeline programs (EVT101/103, DiaPep277 and EVT770), (ii) the milestone portion of the Boehringer Ingelheim alliances, and (iii) the drug discovery services business. The drug discovery services business includes all of the partner-funded research activities and any milestones that are not captured in (i) or (ii). The pipeline programs and milestones from the Boehringer Ingelheim alliances are valued using a risk-adjusted NPV (rNPV) approach, and the drug discovery services using a DCF (WACC 11%, Terminal Value 104.1m).

Table 11. Sum of the Parts (SOTP)

	Value (mln €)	Per share (€)
Service division	184.4	1.6
EVT-101/103 Roche alliance (Treatment resistant depression)	97.6	0.8
Boehringer Ingelheim alliance (Oncology, Inflammation & Metabolic)	34.7	0.3
EVT 770 - MedImmune (Type 1 and 2 Diabetes)	25.4	0.2
DiaPep277 – Andromeda/Teva (Type 1 Diabetes)	45.0	0.4
Net cash	67.1	0.6
Sum	454.3	3.8

Source: Kempen & Co estimates

Our DCF valuation indicates a value of €154.4 or €1.3 per share for the drug discovery service division. Our rNPV valuation indicates €97.6m or €0.8 per share for EVT101/103, €34.7m or €0.3 per share for the milestones for the Boehringer Ingelheim alliances, €51.6m or €0.4 per share for DiaPep277 and €25.6m or €0.2 per share for EVT770. Net cash resources contribute €0.8 per share.

On this basis we arrive at a price target of €3.8 per share.

Investment case

By focusing on the outsourcing of discovery stage R&D Evotec is targeting the fastest growing segment of the R&D outsourcing trend. The company's drug-discovery focused business model generates stable revenues in the form of fee-for-service contracts, upfront and milestone payments, with future upside to come from royalties on approved products. With all partnered R&D programs fully funded by its alliance partners, Evotec provides biotech exposure with minimum risk.

Newsflow

The following events may impact Evotec's share performance:

Table 12. Upcoming newsflow

Program / Event	Description	Date
Annual Results	2010 Annual Report	24 March 2011
Quarterly Results	Q1 2011 Interim Report	12 May 2011
EVT101/103 (Treatment Resistant Diabetes)	Phase II data	H2 2011/H1 2012
Quarterly Results	Q2 2011 Interim Report	11 August 2011
EVT201 (Insomnia)	Phase II clinical trial start (China)	2011
Neuropathic Pain	Phase I data	2011
EVT501 (Cognition, Narcolepsy)	Phase I data	2011
Quarterly Results	Q3 2011 Interim Report	10 November 2011
DiaPep277 (Type I Diabetes)	Phase III Data	2012

Source: Kempen & Co estimates

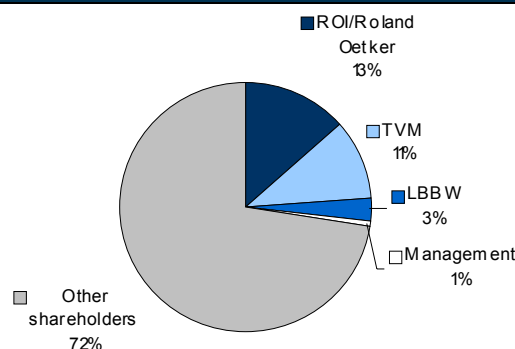


Appendix

Shareholder Structure

Shareholders in Europe, especially in Germany, the United Kingdom, Switzerland, France and the US, account for the largest proportion of ownership in Evotec's stock. Two major shareholders, TVM V Life Science Ventures GmbH & Co. KG and ROI Verwaltungsgesellschaft mbH/Roland Oetker, have exceeded the threshold of 5%. The remainder, 72% is free float according to the definition of the Frankfurt Stock Exchange.

Figure 6. Evotec shareholder structure



Source: KEMPEN & Co estimates

Management Team

Dr Werner Lanthaler, CEO

Dr Werner Lanthaler was appointed CEO of Evotec in March 2009. Prior to Evotec he was CFO at Intercell AG, Director of the Federation of Austrian Industry, and Senior Management Consultant at McKinsey & Company. During his tenure at Intercell (2000-2008) the company developed from a venture-backed biotech into a global vaccine player. Dr Lanthaler played a key role in many of the company's major corporate milestones including the product approval of Ixiaro, Intercell's Japanese Encephalitis Vaccine, a number of acquisitions and strategic pharma partnerships, and the company's Initial Public Offering in 2005. He holds a doctorate in economics from Vienna University, earned his Master's degrees from Harvard University, and holds a degree in Psychology.

Colin Bond, CFO

Colin Bond joined Evotec AG as CFO in August 2010. He has almost 25 years of experience in leading finance positions, having also served as CFO of Novartis Europe and Jet Aviation Group, and CFO EMEA for Ecolab. Earlier in his career he worked as a pharmacist, auditor and management consultant for Procter & Gamble, Arthur Andersen and PricewaterhouseCoopers respectively. Colin Bond is a qualified chartered accountant and pharmacist. He is a fellow of the Institute of Chartered Accountants in England and Wales and is a member of the Royal Pharmaceutical Society of Great Britain. He received his MBA degree from the London Business School.



Dr Cord Dohrmann, CSO

Dr Cord Dohrmann joined Evotec AG as CSO in September 2010. Dr Dohrmann has spent over 20 years in biomedical research at leading academic institutions and in the biotech industry. He received his Ph.D. in Cell and Developmental Biology from Harvard in 1996. Dr. Dohrmann continued his career as a research fellow at the Massachusetts General Hospital in Boston before joining DeveloGen in 1999. He served DeveloGen in various management positions including CEO, leading DeveloGen from a start-up to an internationally recognised metabolic disease company with a pipeline of highly innovative preclinical and clinical products for the treatment of diabetes and related disorders. Dr. Dohrmann has advised the European Commission, the Max-Planck-Institute and venture capital firms, and authored and co-authored a number of publications and patents.

Dr Mario Polywka, COO

Dr Mario Polywka is COO of Evotec. In 1991, he was a founding chemist of Oxford Asymmetry International plc (OAI), became Director of Chemistry in 1993 and a Board Director in 1996. In 1999, Dr Polywka was appointed Chief Operating Officer and in 2001 Chief Executive Officer of OAI. He joined Evotec following the merger of Evotec with OAI in 2000. Dr Polywka has also ran a number of spin-out companies in the Oxford area, and still serves as Chairman on the boards of Pharminox and Glycoform. Dr Polywka received a doctorate from the University of Oxford in mechanistic organometallic chemistry, is a Fellow of the Royal Society of Chemistry, and has a number of publications and patents mainly in the field of asymmetric synthesis.

Dr Klaus Maleck, EVP Corporate Development

Dr Klaus Maleck was formerly the CFO of Evotec from November 2007 to August 2010, after which he assumed responsibility for corporate development, focusing on M&A, strategy and licensing. Prior to Evotec Dr Maleck co-founded BioGeneriX AG where, in his role as CFO and VP Business Development, he was responsible for in-licensing advanced development candidates and for building a product pipeline, securing financing through extensive partnering and negotiating co-marketing deals with big pharma. Dr Maleck worked as a Senior Consultant at McKinsey & Co. and as a scientist in the genomics field at Novartis, Inc. Dr Maleck received his Ph.D. in biotechnology from the Max-Planck-Institute Cologne, and earned his MBA at Educatis University in Switzerland.

Supervisory Board

Dr Flemming Oernskov

Dr Flemming Oernskov has been Chairman of the Supervisory Board of Evotec since August 2008. He is currently heading the Women's Healthcare & General Medicine Global Business Unit at Bayer Schering Pharma (BSP) and is a member of their Executive Committee. He joined BSP from Bausch & Lomb, Inc., where he served as Global President, Pharmaceuticals and OTC, from 2008 to 2010. He was responsible for the company's prescription ophthalmic pharmaceuticals and generics, as well as its general eye health and vitamins businesses. Prior to this he served as CEO and President of Ikaria, Inc., a privately owned, critical care company in Seattle, USA which was sold to a private equity company in 2007. From 2002 to 2005, he was President of the Ophthalmics Business Unit for Novartis and from 2001 to 2002, he led Novartis' US cardiovascular franchise. Prior to joining Novartis, Dr Oernskov held several senior leadership positions at Merck & Co.



Dr Oernskov received a MD degree from University of Copenhagen, a MBA degree from INSEAD and a Master of Public Health degree from Harvard University

Dr Hubert Birner

Dr Hubert Birner was appointed Member of the Supervisory Board in June 2005. He is General Partner for life sciences at TVM's Munich office. Prior to TVM he was Head of Business Development Europe and Director of Marketing Germany at Zeneca. Dr Birner joined Zeneca from McKinsey & Company's European Health Care and Pharmaceutical practice.

He currently serves as Chairman of the Board of Argos Therapeutics Inc. and is a Member of the Board of Directors of BioXell SA, Spopharm Holding BV, Proteon Therapeutics, Inc, Transmolecular Inc. and Nitec Pharma SA. Over many years, he was the Chairman/Vice Chairman of Direvo Biotech AG and Jerini AG which were acquired in 2008 by Bayer HealthCare AG and Shire Ltd. Dr Birner also represents the interests of TVM Capital with Ardana Bioscience plc.

Dr Birner holds an MBA from Harvard Business School and a "summa cum laude" doctoral degree in biochemistry from Ludwig-Maximilians-University Munich. His doctoral thesis was honoured with the Hoffmann-La Roche prize for outstanding basic research in metabolic diseases.

Dr Peter Fellner

Dr Peter Fellner has been a Member of the Supervisory Board of Evotec since June 2005. He was appointed as Chairman of Vernalis plc in January 2003 and as Executive Chairman in April 2003. Previously, he was Chairman of Celltech Group plc, having served as its Chief Executive Officer from 1990 to 2003. He oversaw its development into the UK's largest biotechnology company, until its acquisition by UCB in 2004. Before joining Celltech, Dr Fellner served as Chief Executive Officer of Roche UK, from 1986 to 1990. From 1984 to 1986 he was Director of the Roche UK Research Centre.

Dr Fellner is also Chairman of Astex Therapeutics Ltd., and a Non-executive Director of UCB S.A., QinetiQ Group plc, and Consort Medical plc.

Timeline

Mary C Tanner

Mary C Tanner has been a Member of the Supervisory Board of Evotec AG since January 2005. Mrs Tanner has devoted more than 25 years to the global healthcare industry. Currently she is a Managing Director of Peter J. Solomon Company (PJSC), an independent US investment bank. Prior to PJSC, she headed Life Sciences Partners (LSP), a company she founded to specialize in healthcare investment and strategic advisory work. Prior to LSP, she served as Senior Managing Director at both Lehman Brothers and Bear Stearns. During her 22 years at Bear Stearns and Lehman, Ms Tanner led or supervised over 575 transactions, including 220 mergers, acquisitions and divestitures with a total disclosed value of \$250+ billion. She also developed a specialization in the biotechnology industry as it emerged over the last 20 years.

Ms Tanner received her university degree from Harvard in 1973 in philosophy and related fields.



Dr Walter Wenninger

Dr Walter Wenninger has been a Member of the Supervisory Board of Evotec since June 2009. He has profound experience in strategic management, research & development and sales & marketing from leading positions in the international pharmaceutical industry. His career includes more than 30 years at Bayer AG where he held top-executive management positions within the lifescience business. From 1994 to 2000 Dr Wenninger served as a member of the Management Board of Bayer AG responsible for the healthcare sector. Following his retirement at Bayer, he has been involved in corporate development of several life science organizations. Dr Wenninger currently serves on the boards of various other European pharmaceutical and biotechnology companies including Noxxon Pharma AG, Paion AG, Recordati S.p.A. and Santaris Pharma A/S.



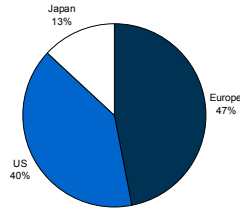
Evotec

Life Sciences / Biotechnology ■ Germany

Company description

Website: www.evotec.com

Geographical Data-sales

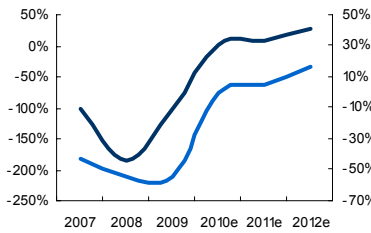


SWOT analysis

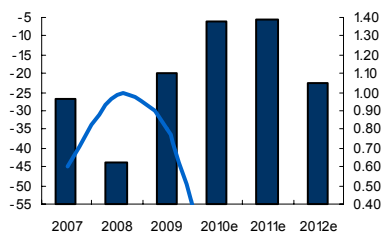
Strengths	Weaknesses
Low risk alliance structures	Reliant on few major alliance partners
Broad range of pharma partners	Margins growth constrained by low risk model
Long term collaborations with partners	

Opportunities	Threats
New partnering deals	Shift in strategy or priorities of alliance partners
Strong growth in market for drug discovery outsourcing	Price pressure and expanding capabilities from emerging market competitors
Blockbuster potential of EVT101	

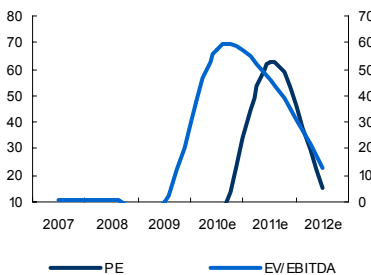
Return ratios (%)



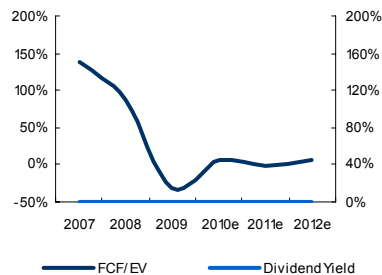
Net Debt vs. EBITDA



Valuation ratios



Yields



Rating

BUY

Price target (12m) **€3.80**

Closing price (4 March 2011) **€2.94**

Upside / downside **29.3%**

Date **7 March 2011**

Kempen & Co estimates versus consensus

	2010E	2011E	2012E
JCF Consensus	-	-	-
Kempen & Co	0.00	0.05	0.20
Kempen vs Consensus %	-	-	-

Source: Kempen & Co estimates, Factset

EVT GY vs MSCI Small Cap Index Europe



Price Performance (%)	-1m	-3m	-12m
Absolute	-12.8%	8.6%	44.8%
Rel. to MSCI Small Cap Index Europe	-12.0%	3.0%	17.2%

Source: Factset

Company data

52-Week range	€1.83 - 3.40
Market cap	€347.5m
Number of shares	118.2m
Free float	76%
Average daily volume	408,896

Company data

Bloomberg / Reuters	EVT GY / EVT.DE
Next announcement	24 March 2011
	FY 2010 Results

Major Shareholders

Company	%
ROI/Roland Oetker	13.50
TVM	10.50
LBBW	3.00
Dimensional	1.85
DWS	0.87
Adamant	0.67

Source: Kempen & Co estimates, AFM

Analysts

Mark Pospisilik
+31 (0)20 348 8481
mark.pospisilik@kempen.nl
Sachin Soni
+31 (0)20 348 8493
sachin.soni@kempen.nl

Source: Kempen & Co estimates



Evotec

Life Sciences / Biotechnology ■ Germany

Income Statement (Year to 31 Dec)		2006	2007	2008	2009	2010E	2011E	2012E			
Revenues		84.7	54.4	39.6	42.7	53.5	65.0	88.9			
Gross income		30.6	13.5	17.6	18.4	26.2	32.0	51.5			
EBITDA	0.0	-22.4	-44.5	-44.8	-24.7	4.0	7.5	26.0			
Depreciation	0.0	0.0	-3.5	-5.3	-7.8	-18.2	-3.7	-2.0			
Amortisation	0.0	0.0	-6.6	-5.8	-20.3	0.0	0.0	0.0			
EBIT		-32.4	-55.6	-72.9	-43.0	0.3	5.5	23.3			
Exceptionals before tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Net interest result	0.0	0.0	0.5	40.2	-3.0	-1.9	0.0	0.0			
Taxes	0.0	0.0	4.2	4.2	-2.3	-0.7	0.0	0.0			
Participations/investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Minorities/preference dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Net profit	0.0	0.0	-27.7	-11.2	-78.3	-45.5	0.3	5.5			
Exceptionals after tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Adjusted net profit	0.0	0.0	-21.1	-5.3	-58.0	-45.4	0.3	5.5			
Per share data		2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
EPS before amort. (excl. exceptionals)		0.00	0.00	0.00	0.00	0.00	0.00	-0.48	0.00	0.05	0.20
EPS after amort. (excl. exceptionals)		0.00	0.00	0.00	0.00	0.00	0.00	-0.48	0.00	0.05	0.20
CFPS		0.00	0.00	0.00	0.00	0.00	0.00	-0.29	0.04	0.06	0.22
DPS		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BVPS		0.00	0.00	0.00	0.00	0.00	0.00	1.16	1.20	1.19	1.39
FCFPS								-0.33	0.14	-0.05	0.15
Cash Flow		2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
EBITDA		0.0	0.0	0.0	-22.4	-44.5	-44.8	-24.7	4.0	7.5	26.0
Cash taxes		0.0	0.0	0.0	4.2	4.2	-2.3	-0.7	0.0	0.0	0.0
Cash interest income/expenses		0.0	0.0	0.0	0.5	40.2	-3.0	-1.9	0.0	0.0	0.0
Cash change in provisions		0.0	0.0	0.0	0.0	-0.7	1.5	-1.9	1.3	-1.0	0.0
Change in working capital		0.0	0.0	0.0	0.0	-24.2	-3.1	-0.2	12.4	-5.9	-2.9
Other items		0.0	0.0	0.0	0.0	11.2	10.6	-1.6	-0.4	-3.4	-3.3
Operating cash flow		0.0	0.0	0.0	0.0	-13.7	-41.2	-31.0	17.3	-2.9	19.7
Net capex						-20.3	0.8	0.3	-47.9	-5.5	-2.7
Free cash flow						-34.0	-40.4	-30.7	-30.6	-8.3	17.0
Acquisitions						-37.0	0.7	0.6	-45.6	-2.5	-0.9
Financing cash flow		0.0	0.0	0.0	0.0	13.8	57.4	8.5	7.7	6.6	0.0
Dividends paid		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow		0.0	0.0	0.0	0.0	-20.2	17.1	-22.1	-22.8	-1.7	17.0
Balance sheet		2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Tangible fixed assets		0.0	0.0	0.0	34.7	18.6	18.5	19.2	18.3	19.9	19.9
Intangible fixed assets		0.0	0.0	0.0	91.9	76.4	60.5	45.6	75.4	83.2	83.2
Financial fixed assets		0.0	0.0	0.0	22.6	59.2	40.9	39.8	56.0	50.0	50.0
Current assets		0.0	0.0	0.0	14.5	11.7	6.7	8.8	13.3	16.2	17.2
Cash		0.0	0.0	0.0	58.2	38.0	55.1	32.9	10.1	8.3	25.4
Total assets		0.0	0.0	0.0	243.1	207.9	182.9	146.6	173.0	177.6	195.7
Interest bearing debt		0.0	0.0	0.0	19.7	11.1	11.0	13.0	4.2	3.0	3.0
Provisions		0.0	0.0	0.0	13.3	7.7	9.1	7.7	13.7	11.7	10.7
Other liabilities		0.0	0.0	0.0	41.7	18.5	13.0	14.5	26.9	21.4	17.2
Minorities		0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.6	0.6	0.6
Equity					168.3	170.6	149.9	110.9	127.6	140.9	164.3
Working capital					-27.2	-6.8	-6.3	-5.6	-13.6	-5.2	0.1
Net debt		0.0	0.0	0.0	-38.5	-26.9	-44.1	-20.0	-5.9	-5.3	-22.4
Capital invested (incl. goodwill)					201.4	189.4	169.9	132.1	146.1	156.2	178.6
Capital invested (excl. goodwill)					152.5	150.4	156.6	115.6	128.6	138.7	161.0
Valuation		2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Market cap		0.0	0.0	0.0	0.0	0.0	0.0	117.4	235.1	347.5	347.5
Enterprise value		0.0	0.0	0.0	-38.5	-26.9	-44.1	97.5	229.3	342.1	325.1
P/E		nm	nm	nm	nm	nm	nm	nm	nm	63.0	14.9
P/CF		nm	nm	nm	nm	nm	nm	nm	nm	58.8	13.4
P/B		nm	nm	nm	nm	nm	nm	1.1	1.8	2.5	2.1
EV/Revenues					nm	nm	nm	2.3	4.3	5.3	3.7
EV/EBITDA		nm	nm	nm	1.7	0.6	1.0	nm	57.3	45.8	12.5
EV/EBIT					1.2	0.5	0.6	nm	nm	62.0	13.9
EV/Capital invested (incl. goodwill)					nm	nm	nm	0.7	1.6	2.2	1.8
EV/Capital invested (excl. goodwill)					-0.3	-0.2	-0.3	0.8	1.8	2.5	2.0
Dividend yield			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF/EV						138.7%	86.3%	-30.2%	6.5%	-1.7%	5.5%
FCF/Market cap						nm	nm	-26.6%	6.4%	-1.7%	5.2%
P&L ratios					2006	2007	2008	2009	2010E	2011E	2012E
Revenue growth						-35.8%	-27.2%	7.8%	25.3%	21.5%	36.8%
EBITDA growth					nm	nm	nm	nm	nm	86.8%	248.1%
EBIT growth					nm	nm	nm	nm	nm	2,062.8%	322.6%
Net profit growth					nm	nm	nm	nm	nm	2,062.8%	322.6%
EPS growth								nm	nm	1,854.0%	322.6%
Gross margin					36.1%	24.8%	44.5%	43.2%	49.0%	49.2%	58.0%
EBITDA margin					-26.4%	-81.8%	-113.1%	-57.8%	7.5%	11.5%	29.2%
EBIT margin					-38.3%	-102.3%	-184.1%	-100.7%	0.5%	8.5%	26.2%
Tax rate					13.1%	27.5%	-3.0%	-1.5%	0.0%	0.0%	0.0%
Net margin					-25.0%	-9.8%	-146.4%	-106.5%	0.5%	8.5%	26.2%
ROE					-12.6%	-3.1%	-38.7%	-41.0%	0.2%	3.9%	14.2%
ROCI (incl. goodwill)					-19.1%	-22.0%	-21.3%	0.1%	2.7%	10.4%	
ROCI (excl. goodwill)					-24.7%	-25.7%	-23.6%	0.2%	3.1%	11.7%	
Dividend pay-out			nm	nm	nm	nm	nm	0.0%	0.0%	0.0%	0.0%
Balance sheet ratios		2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Net debt/Equity					-22.9%	-15.8%	-29.4%	-17.9%	-4.6%	-3.8%	-13.6%
Net debt/EBITDA					1.7	0.6	1.0	0.8	nm	nm	nm
Interest cover					37.9	7.1	27.3	679.3	nm	nm	nm
Working capital/Revenues					-32.1%	-12.5%	-15.9%	-13.2%	-25.3%	-8.0%	0.1%
Capex/Depreciation						-314.1%	-1.2%	1.6%	61.4%	153.5%	66.7%
Capex/Revenues						30.7%	0.2%	-0.7%	-4.3%	-4.6%	-2.0%
Equity/Total assets					69.2%	82.0%	81.9%	76.0%	74.1%	79.7%	84.2%

Source: Company Data, Kempen & Co estimates



Disclosures

Analyst certifications

The views expressed in this report accurately reflect the views of the research department of Kempen & Co, on whose behalf the analyst(s) mentioned on the cover or the inside cover page of this report has been preparing this report, about the subject issuer and the securities of the issuer and/or other subject matters. No part of the compensation of the analyst(s) was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Kempen & Co's total revenues, a portion of which are generated by Kempen & Co's investment banking activities.

Regulatory disclosure

Company mentioned in this report
-

Recommendation structure

Definitions	
Method	Company reports include a discussion of valuation methods used in order to determine price targets
Sell	Expected negative total return of 15% or more on a 12 month basis.
Hold	Expected total return between 15% to -15% on a 12 month basis.
Buy	Expected positive total return of 15% or more on a 12 month basis.
Under review	Rating and/or price target are under review in case there is insufficient basis for determining a rating and/or price target.
Not rated	Rating and price target are suspended because of Kempen & Co engagement in an investment banking transaction and in certain other circumstances.

Recommendation distribution

Rating	Count (% of total coverage)	% of investment banking clients
SELL	0 (0%)	0%
HOLD	38 (44%)	42%
BUY	48 (56%)	58%
Total	86 (100%)	100%

Recommendation history

Evotec (EVT GY)			
Date	Close	Price target	Rating
7-Mar-11	2.94	3.80	BUY

Price target history



Analyst coverage: Mark Pospisilik
Source: Kempen & Co, Factset



Disclaimer

This publication has been prepared by the Research Department of Kempen & Co NV ('Kempen & Co') solely for information to its clients. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument.

This report is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions and recommendations as of the date appearing on this report only. We endeavour, but have no obligation, to update the information discussed in this report on a reasonable basis but regulatory, compliance or other reasons may prevent us from doing so.

Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. This report has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Investors should, without relying solely on this report, make their own independent investment decisions and, if necessary, seek professional advice.

The value of, or income from, any investments referred to herein may fluctuate because of changes in interest rates or exchange rates, securities prices or market indices, operational or financial conditions of companies or other factors. Past performance is not indicative of future results. Neither Kempen & Co nor any of its officers or employees accept any liability for any direct or consequential loss arising from any use of this publication or its contents.

Kempen & Co is a full service, integrated investment banking, investment management and brokerage firm and we may have a relationship with companies mentioned in this report. As such, Kempen & Co, group companies and/or their officers, affiliates, directors and employees, including persons involved in the preparation or publication of this report, may from time to time (i) perform brokerage, market making activities, liquidity provider services, and/or investment banking services for, or on behalf of any of the companies referred to in this report, or may intend to receive or seek compensation for brokerage and investment banking services from companies mentioned in this report, (ii) have investments, either independently or for the benefit of third parties, in securities or derivatives of securities mentioned in this report, and may trade them in ways contrary to or inconsistent with those discussed in this report, as a broker, market maker, or in any other role. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Kempen & Co is a fully owned subsidiary of F. van Lanschot Bankiers N.V. (Van Lanschot). Van Lanschot and Kempen & Co as banks operate under license granted by the Dutch Central Bank ('De Nederlandsche Bank N.V.') in accordance with article 2:11 of the Act on Financial Supervision (Wet op het financieel toezicht or Wft), and are registered as securities institutions with the Netherlands Authority for the Financial Markets (Stichting Autoriteit Financiële Markten or AFM).

This report is distributed to and is exclusively intended for its recipient. Each recipient, by its acceptance hereof, acknowledges that he will not pass on this report to any other person. The contents of this report may not be reproduced, redistributed or copied, in whole or in part, by any person for any purpose without the prior written permission of Kempen & Co and Kempen & Co accepts no liability whatsoever for the actions of others in this respect.

The distribution of this document in certain jurisdictions may be restricted by law, and recipients into whose possession this comes should inform themselves about, and observe, any such restrictions.

This report is only intended for distribution in the United Kingdom to, and is only directed at, (i) persons who have professional experience in matters relating to investments, (ii) persons who fall within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) and (iii) persons to whom it may otherwise lawfully be distributed and any investment or investment activity to which it relates is available only to such persons. This report should not be distributed or passed on, directly or indirectly, to any other person in the United Kingdom and any other person should not rely or act on it.

This report is distributed in the United States of America solely to "major institutional investors" as defined in Rule 15a-6 (U.S. Securities Exchange Act of 1934) and may not be furnished to any other person in the United States. Each U.S. recipient by its acceptance hereof warrants that it is a "major institutional investor" as defined, understands the risks involved in dealing in securities or any financial instrument and shall not distribute nor provide this report, or any part thereof, to any other person. Any U.S. recipient wishing to effect a transaction in any security or other financial instrument discussed in this report, should do so by contacting Kempen & Co USA, Inc. Kempen & Co USA, Inc is a U.S. broker dealer subsidiary of Kempen & Co NV and is a member of FINRA.

Investors outside the United States and United Kingdom are encouraged to contact their local regulatory authorities to determine whether any restrictions apply to their ability to purchase investments to which this report refers.

Netherlands

Kempen & Co N.V.
Beethovenstraat 300
P.O. Box 75666
1070 AR Amsterdam
Tel.: +31 (0) 20 348 8000

USA

Kempen & Co U.S.A., Inc.
880 Third Avenue 17th Floor
New York, NY 10022
Tel.: +1 212 376 0130