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Reason for Report:

Earnings Announcement

Changes	Previous	Current
Rating	--	Neutral
Price Tgt	--	€1.31
FY09E Rev (€m)	42.5	
FY10E Rev (€m)	--	35.6
FY09E EPS (€)	--	(0.35)
FY10E EPS (€)	--	(0.17)
Price:		€1.95
52 Week High:		€2.45
52 Week Low:		€0.58
12-Month Price Target:		€1.31
<i>SOP-NPV Analysis</i>		
Shares Out (mil):		108.8
Market Cap. (mil):		€212.4
Market Cap. (\$m):		\$282.8
Avg Daily Vol (000):		457
Cash Per Share:		€0.49
Fiscal Year End:		Dec

Stock symbol/code:

Bloomberg: EVT GR

Thomson Financial: EVT-FF

Reuters: EVTG.DE

Rev (€m)	2008A	2009E	2010E
H1	14.5A	18.7A	17.8E
H2	<u>25.1A</u>	<u>23.8E</u>	<u>17.8E</u>
FY	39.6A	42.5E	35.6E
FY RM	5.4x	5.0x	6.0x

EPS (€)	2008A	2009E	2010E
H1	(0.31)A	(0.28)A	(0.10)E
H2	<u>(0.55)A</u>	<u>(0.08)E</u>	<u>(0.07)E</u>
FY	(0.82)A	(0.35)E	(0.17)E
FY P/E	NM	NM	NM

Net Cash (€m)	2008A	2009E	2010E
H1	101.0A	72.7E	52.5E
H2	<u>84.1A</u>	<u>63.1E</u>	<u>45.6E</u>
FY	84.1A	63.1E	45.6E

**Evotec
Neutral****EVT GR - €2.0****Strong FY-09 results; bullish 2010 guidance****CONCLUSION:**

Reported FY-09 earnings have beaten PJe on revenues, adjusted operating loss and year-end cash. Q4 was cashflow positive reflecting the successful restructuring. 2010 guidance is ahead of our forecasts, reflecting a strong order book and potential milestones from alliance partners (which are not factored into our forecasts). Evotec has reiterated its long-term guidance for profitability by 2012 - we view the strong 2009 performance and recent alliances/deals as evidence that the company is making good progress towards this goal. The next key news is start of EVT101 Ph.II trial in depression in Q2.

- **Financials - revenues and cash ahead.** Reported revenues of €42.7m were slightly ahead of our forecast of €42.5m. Higher gross margin of 43.2% (PJe 39%) resulted in gross profit of €18.4m vs. PJe of €16.7m. R&D expenses of €20.9m were substantially lower than PJe of €27.3m and SG&A was €16.7m vs. PJe of €17.4m. However, operating loss of €42.3m was above our forecast of €38.8m, which was driven purely by amortisation/impairment charges. Excluding the latter, adjusted operating loss of €19.6m was well below PJe of €28m. Reported YE-09 cash was €70.6m vs. PJe of €63.1m. Encouragingly, Q4 was cashflow positive and, adjusting for exceptionals, profitable.
- **2010 guidance.** Evotec has guided to revenues of €48-50m in 2010 (+15% YoY), with the order book currently standing at €28m (i.e. >50% of projected revenues are underpinned by existing deals). This is well above our current estimate of €36m. However, our projection is based purely on R&D fee income and excludes potential milestones - we expect the analyst call to provide clarity on the potential milestone income for 2010. In addition, R&D expenses are expected to be c.€10m (PJe. €11.3m) and year-end liquidity of €64m (PJe. €45.6m). Evotec has reiterated its long-term guidance for revenues of c.€60m and profitability by 2012.
- **Key pipeline update - EVT101 Ph.II start confirmed for Q2.** Today's key pipeline news, in our view, is confirmation that the EVT101 Ph.II trial in depression will start in Q2-10. This follows positive FDA feedback on Evotec's trial plans (see note of 10 Mar '10).
- **Reiterate Neutral.** Our current NPV-derived PT of €1.31 values only the existing alliances business (R&D fee income only), EVT101 and cash. The advancement of EVT101 into Ph.II in Q2 will not impact our valuation as we already assume a Ph.IIa (24%) probability of success on the programme. Our cautious stance and Neutral rating on Evotec's stock has been driven by the need to see sustained deal flow and revenue growth in the Alliances Business.

INVESTMENT RECOMMENDATION:

We have a Neutral rating and NPV-derived PT of €1.31.

RISKS TO ACHIEVEMENT OF TARGET PRICE:

Failure to partner programmes; failure of EVT101, failure of P2X7.

COMPANY DESCRIPTION:

Evotec is a biopharmaceutical company focused on CNS disorders, pain and cancer

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Company Description

Evotec discovers and develops small molecule therapies for Central Nervous System (CNS) disorders, pain and inflammation. The new CEO has implemented a major restructuring programme to refocus the pipeline, reduce cash burn and grow the alliances business. Lead compound EVT101, for treatment-resistant depression, is partnered with Roche in a \$300m deal and a Phase II proof-of-concept trial is now expected to start in early 2010. The second clinical programme EV401, a novel P2X7 antagonist, has successfully completed Phase I trials and could enter a Phase II study in rheumatoid arthritis in late 2010.

Investment Thesis

We remain encouraged by Evotec's continued efforts to rein in costs and rationalise its R&D portfolio. The restructuring addressed our key concerns about the company's high cash burn and unfocused development strategy. Furthermore, we view the closure of the US operations and EVT101 licensing deal with Roche as evidence of management's ability to execute a rapid turnaround. However, we maintain our Neutral rating until we see sustained evidence that Evotec can monetise its early-stage programmes and grow the discovery alliances business.

SOP-NPV valuation

Drug	Indication	Stage	Launch	Peak Sales (\$m)	Probability	rNPV (Em)	rNPV/share (E/share)
EVT101	Treatment-refractory depression	Phase II	2014	743	24%	63.6	0.58
Services						67.4	0.62
Other costs						-45.2	-0.42
Tax						-6.3	-0.06
Cash						63.1	0.58
Total NPV						142.3	1.31

Source: Piper Jaffray

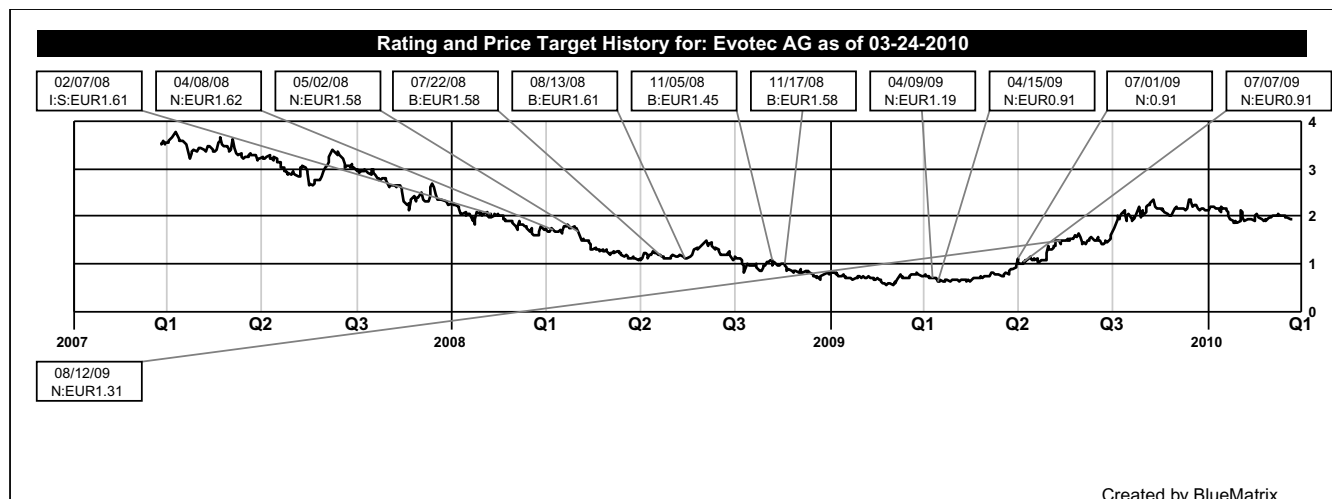
Evotec
Historical Earnings and Projections

Profit and Loss													
Year end Dec. 31st (€m)	2006	H1-07A	H2-07A	2007A	H1-08	H2-08	2008	H1-09	H2-09E	2009E	H1-10E	H2-10E	2010E
Discovery Alliances business	84.7	28.5	25.9	54.4	14.5	25.1	39.6	17.6	22.0	39.6	16.0	16.0	32.0
EVT101 (Treatment-resistant depression)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1	1.8	2.9	1.8	1.8	3.6
Total revenue	84.7	28.5	25.9	54.4	14.5	25.1	39.6	18.7	23.8	42.5	17.8	17.8	35.6
COGS	54.1	22.1	18.8	40.9	10.9	11.1	22.0	11.7	13.1	25.9	12.8	12.8	25.6
Gross Profit	30.6	6.4	7.1	13.5	3.7	14.0	17.6	7.1	10.7	16.7	5.0	5.0	10.0
R&D	33.4	16.4	20.5	36.9	21.9	20.6	42.5	16.3	11.0	27.3	7.3	4.0	11.3
SG&A	29.0	9.9	13.6	23.5	8.5	12.0	20.5	9.2	8.3	17.4	9.2	9.1	18.3
Impairment of goodwill	6.6	0.0	5.8	5.8	0.0	20.3	20.3	6.6	0.0	0.0	0.0	0.0	0.0
Impairment of tangible assets	-0.6	0.0	2.7	2.7	0.0	7.3	7.3	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income/expense	1.6	0.9	1.2	2.1	1.1	1.3	2.4	-0.1	0.0	0.0	0.0	0.0	0.0
Restructuring expenses	0.6	0.0	0.4	0.4	0.1	0.0	0.1	4.1	0.0	4.1	0.0	0.0	0.0
Operating expenses	52.0	27.2	44.2	71.4	31.6	61.5	93.1	36.2	19.3	55.4	16.5	13.1	29.6
Other income	0.0	0.9	1.3	2.2	1.1	1.2	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Operating income (loss)	-21.4	-19.9	-35.8	-55.8	-26.9	-46.3	-73.2	-29.1	-8.6	-38.8	-11.5	-8.1	-19.6
Net finance income (expense)	0.7	0.8	0.8	1.6	1.1	1.1	2.1	0.1	0.3	0.7	0.3	0.2	0.5
Other non-operating income/expense	6.7	11.7	27.1	38.8	0.8	-5.7	-4.9	-1.4	0.0	0.0	0.0	0.0	0.0
Pre-tax profit (loss)	-14.0	-7.5	-7.9	-15.4	-25.0	-51.0	-76.0	-30.4	-8.2	-38.1	-11.2	-7.9	-19.1
Income tax expense	-0.8	0.0	0.4	0.4	0.3	1.6	1.9	0.2	0.0	0.2	0.0	0.0	0.0
Deferred tax benefit (expense)	0.0	0.0	4.6	4.6	-0.5	0.1	-0.4	0.2	0.0	0.0	0.0	0.0	0.0
Net profit (loss)	-14.8	-7.5	-3.7	-11.2	-25.9	-52.4	-78.3	-30.4	-8.2	-38.2	-11.2	-7.9	-19.1
No. of shares	66.4	69.8	73.9	71.8	83.7	95.2	95.2	108.8	108.8	108.8	109.8	109.8	109.8
Basic earnings (loss) per share	-22.4	-10.8	-5.0	-15.5	-30.9	-55.1	-82.2	-27.9	-7.6	-35.1	-10.2	-7.2	-17.4
Cash	78.7	72.4	93.7	93.7	101.0	84.1	84.1	72.7	63.1	63.1	52.5	45.6	45.6

Source: Evotec actuals, Piper Jaffray estimates

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			Count	Percent
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