

16 August 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	53.4	(1.4)	(1.7)	0.0	N/A	N/A
12/11e	59.2	(0.5)	(0.9)	0.0	N/A	N/A

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

### Investment summary: Flying start to 2010

Evotec grew revenues by 33% during H110 and delivered its first profitable H1 results in its history. The company benefited from the achievement of two significant milestones and a reduced level of R&D spending. However, the results provide additional evidence that Action Plan 2012 is on track to make Evotec a sustainably profitable company from 2012.

#### Increased guidance

Evotec has raised its FY10 revenue guidance from €48-50m to €52-54m after increasing revenues by 33% to €25.0m during H110. The underlying revenue from drug alliances during this period was €20.0m (growth of 22%) and milestone revenues included two significant payments from Boehringer Ingelheim (€2.0m for the initiation of a Phase I trial in neuropathic pain and €2.5m after oncology products entered preclinical studies; it has also earned a €2.5m payment in Q310 for another candidate entering preclinical studies).

#### Margins maintained

The strong revenue growth was achieved while improving gross margins that increased from 37.6% in H109 to 45.1% in H110. This shows that Evotec has not compromised the quality of contracts to drive the sales growth. At the same time its focus on cost has not had a significant impact on its operational efficiency based on the steady achievement of milestones.

#### Action Plan 2012 on track

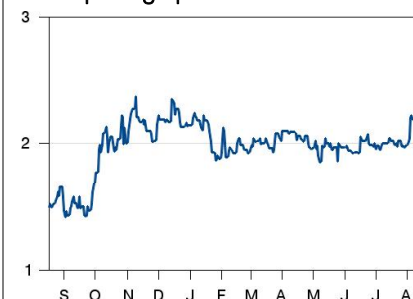
Evotec was profitable in H110, however this was partly because of the significant milestones and the low level of R&D spending. But the company has a strong order book (+21% y-o-y at 30 June) and has made significant progress towards attaining the critical mass required to deliver sustainable profits from 2012.

#### Valuation: €350m based on DCF

We have increased our valuation of Evotec from €335m to €350m, after upgrading our forecasts. Our FY10 revenue forecast have been raised by 6% to €53m and decreased the FY10 EPS loss from 2.0c to 1.7c.

Price **€2.42**  
Market Cap **€263m**

#### Share price graph



#### Share details

Code **EVT**  
Listing **Frankfurt, Prime Standard**  
Sector **Pharmaceuticals & Biotech**  
Shares in issue **108.8m**

#### Price

52 week High **€2.45** Low **€1.36**

#### Balance Sheet as at 31 June 2010

Debt/Equity (%) **N/A**  
NAV per share (c) **1.10**  
Net cash (€m) **55.3**

#### 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	37.0
EV/Sales	4.7	4.0	3.6
ROE	N/A	N/A	N/A

#### Revenues on geography

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

#### Analysts

Dr Mick Cooper **020 3077 5734**  
Robin Davison **020 3077 5737**  
healthcare@edisoninvestmentresearch.co.uk

**Exhibit 1: Financials**

Note: Company is targeting liquidity of over €64m at FY10, this is comprised of cash and non-current cash equivalents; we forecast liquidity of €66m at FY10. Net debt includes non-current cash equivalents.

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>53,386</b>	<b>59,241</b>	<b>68,127</b>
Cost of Sales		(24,862)	(21,977)	(24,262)	(29,912)	(33,767)	(38,832)
Gross Profit		8,023	17,636	18,421	23,474	25,473	29,294
<b>EBITDA</b>		<b>(40,271)</b>	<b>(40,689)</b>	<b>(15,547)</b>	<b>136</b>	<b>2,621</b>	<b>4,765</b>
<b>Operating Profit (before GW and except.)</b>		<b>(46,624)</b>	<b>(44,942)</b>	<b>(19,157)</b>	<b>(1,867)</b>	<b>(1,130)</b>	<b>1,163</b>
Intangible Amortisation		(2,589)	(553)	(455)	(407)	(292)	(290)
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>(2,274)</b>	<b>(1,422)</b>	<b>873</b>
Net Interest		4,006	(2,760)	(2,520)	479	647	814
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>(1,388)</b>	<b>(483)</b>	<b>1,977</b>
<b>Profit Before Tax (FRS 3)</b>		<b>(15,380)</b>	<b>(75,970)</b>	<b>(44,819)</b>	<b>(1,795)</b>	<b>(775)</b>	<b>1,687</b>
Tax		(419)	(1,911)	(363)	(298)	(533)	(613)
Deferred tax		4,643	(406)	(315)	(374)	(0)	(0)
<b>Profit After Tax (norm)</b>		<b>(43,037)</b>	<b>(49,613)</b>	<b>(22,040)</b>	<b>(1,685)</b>	<b>(1,016)</b>	<b>1,364</b>
<b>Profit After Tax (FRS 3)</b>		<b>(11,156)</b>	<b>(78,287)</b>	<b>(45,497)</b>	<b>(2,467)</b>	<b>(1,308)</b>	<b>1,074</b>
Average Number of Shares Outstanding (m)		71.8	95.2	106.8	110.8	111.8	114.8
EPS - normalised (c)		(59.9)	(52.1)	(20.6)	(1.7)	(0.9)	1.2
EPS - FRS 3 (c)		(15.5)	(82.2)	(42.6)	(2.4)	(1.2)	0.9
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		24.4	44.5	43.2	44.0	43.0	43.0
EBITDA Margin (%)		N/A	N/A	N/A	0.3	4.4	7.0
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>72,304</b>	<b>70,631</b>	<b>69,463</b>
Intangible Assets		76,399	60,455	45,567	49,813	49,521	49,231
Tangible Assets		18,561	18,468	19,162	19,393	18,011	17,134
Other		1,077	10,899	12,913	3,099	3,099	3,099
<b>Current Assets</b>		<b>111,841</b>	<b>93,078</b>	<b>68,957</b>	<b>78,560</b>	<b>81,404</b>	<b>86,726</b>
Stocks		2,394	2,139	2,425	3,688	3,701	4,256
Debtors		5,137	2,531	4,510	5,850	5,681	5,599
Cash		93,676	84,098	58,358	63,318	66,320	71,168
Other		10,634	4,310	3,664	5,703	5,703	5,703
<b>Current Liabilities</b>		<b>(24,337)</b>	<b>(21,826)</b>	<b>(26,445)</b>	<b>(26,472)</b>	<b>(27,298)</b>	<b>(29,910)</b>
Creditors		(23,040)	(19,247)	(17,358)	(16,929)	(18,512)	(21,124)
Short term borrowings		(1,297)	(2,579)	(9,087)	(9,543)	(8,786)	(8,786)
<b>Long Term Liabilities</b>		<b>(12,988)</b>	<b>(11,215)</b>	<b>(8,667)</b>	<b>(6,868)</b>	<b>(6,915)</b>	<b>(6,984)</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)	(3,868)	(3,915)	(3,984)
<b>Net Assets</b>		<b>170,553</b>	<b>149,859</b>	<b>111,487</b>	<b>117,523</b>	<b>117,821</b>	<b>119,295</b>
<b>CASH FLOW</b>							
<b>Operating Cash Flow</b>		<b>(32,726)</b>	<b>(42,562)</b>	<b>(19,915)</b>	<b>(3,137)</b>	<b>6,823</b>	<b>7,868</b>
Net Interest		1,590	2,116	(29)	(88)	(182)	(140)
Tax		(536)	(832)	(1,909)	(273)	(513)	(154)
Capex		(4,349)	(3,447)	(1,893)	(2,687)	(2,370)	(2,725)
Acquisitions/disposals		42,245	34,491	0	(2,000)	0	0
Financing		(1,023)	(1,951)	234	108	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)	(8,077)	3,758	4,849
<b>Opening net debt/(cash)</b>		<b>(69,841)</b>	<b>(83,254)</b>	<b>(81,775)</b>	<b>(57,750)</b>	<b>(53,799)</b>	<b>(57,558)</b>
HP finance leases initiated		0	0	0	0	0	0
Exchange rate movements		8,831	0	(272)	(284)	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>(53,799)</b>	<b>(57,558)</b>	<b>(62,406)</b>

Source: Evotec accounts, Edison Investment Research

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Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ [www.edisoninvestmentresearch.co.uk](http://www.edisoninvestmentresearch.co.uk)  
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