Evotec AG
Transcript of the Conference Call
First quarter 2018 results, 09 May 2018 – 2.00 p.m. CEST

Speakers: Dr Werner Lanthaler (CEO), Dr Cord Dohrmann (CSO), Dr Mario Polywka (COO), Enno Spillner (CFO)

Operator

Ladies and gentlemen, welcome to the first quarter report 2018 of Evotec AG. This conference will be recorded. After the presentation there will be an opportunity to ask questions. May I now hand over to Dr Werner Lanthaler, CEO of Evotec AG who will lead you through the conference.

Werner Lanthaler

Thank you very much and hello to everyone on the telephone lines. We have uploaded a presentation that should guide you through our information about the first quarter of 2018 of Evotec's business. We will go through this presentation together, and let me start by saying it has been a good start for our external innovation business with a new business mix that we are bringing together to ultimately accelerate R&D productivity and innovation in the sector. I am here together, as you can see on page 2 of this presentation, with my colleague Enno Spillner, our CFO, my colleague Mario Polywka, our COO, and our CSO Cord Dohrmann, who together with me are managing this business.

When you follow me to page 4 of this presentation, you should appreciate that our growth does not come from mere chance, our growth comes from many different forces that are working together. And if you look at the interplay of EVT Execute, EVT Innovate and our corporate activities, you can see that all these things are very well coming together and have produced a very good start into 2018 which allows us to confirm our very good guidance for 2018. Mario will guide you through the significant progress that we have made in EVT Execute, Cord will inform you about ongoing negotiations with Sanofi and also about the expected news flow out of our platform EVT Innovate. And on the corporate side you should see that we are very happy with our ongoing integration of Aptuit, which is the main reason for our new business mix and we have initiated preparations not only to make the company more European, by converting our company into a SE corporate format, we have also implemented a long-term strategic plan, which we call Action Plan 2022. All of this in the short-term will lead to a top-line revenue guidance of 30% growth and EBITDA guidance of 30% growth and very strong R&D spending on high innovation in our EVT Innovate. Enno will bring you through the detailed results of our Q1 2018 but what you should see is that the business is strong, it can be said that the business is very strong. Why? Because in all business lines we can see that the feedback of our partners and customers really appreciates that we are now bringing a value chain together that is better than ever before. So I think it is really the start of something where these numbers will also grow going very nicely forward.

Coming to growth on page 6 of this presentation, let me remind you that we have put together a very consistent strategy over the last ten years where our growth comes through continuous efforts into the same direction and only if you go to the same direction and continue these efforts you are going somewhere. And this somewhere for us is very clearly defined that we will lead as the no 1 the field of external innovation. So our Action Plan 2022 is highlighting that we are not only going to be a profitable biotech company going forward and increasing the profit of the biotech company going forward but we will be a company that is creating the largest co-owned portfolio out of EVT Innovate and other initiatives in this company going forward. And this constitutes our business model rounded up with academic

BRIDGES and other corporate initiatives which ultimately always use the power of our platforms, when it comes to platforms it is really what we have brought together with our currently more than 2,300 employees, the platform will then apply a business model which is called either EVT Execute, when you operate on the intellectual property of our partners, or EVT Innovate, when we generate our own intellectual property. On that note let me hand over to the first segment of our business, EVT Execute which is led by Mario. I hand over to Mario on page 8.

Mario Polywka

Thank you very much, Werner, and welcome everybody to the first quarter results presentation and as Werner said, I will focus on the EVT Execute segment where we are focused on driving our partners projects on our fully integrated discovery and development platform.

If we move to slide 9 we see a tremendously strong organic and inorganic growth in the EVT Execute segment. The growth in revenues of around € 30 m over the corresponding period last year, which was at € 48.6 m, the result driven by a full quarter addition of Aptuit revenues as well as excluding milestones and nearly double-digit growth of the core business, maintaining an EBITDA margin above 20% of revenues, despite lower milestone achievements in the first quarter, which is just a natural volatility of such revenues, and also the contribution of what is a fundamentally slightly different lower margin business of Aptuit, which really represents an excellent performance and one that we believe will only improve as the year and as the years progress.

Moving to slide 10, this gives a snapshot of our customer base and type and of where the customers actually sit and live. With 30% of our revenues, the contribution from the Aptuit acquisition, it is no surprise to us that the strong dependence of the revenue make-up of our top ten clients has decreased significantly in both relative and absolute terms. This spread of customer risk is of course most welcome. Our customer type remains fairly similar but is strung from the biotech and mid-sized Pharma companies and this is driven by clients that require the full integration of our discovery and development solutions. Geographically we have seen a swing towards the Japanese market; this is assisted by the strong Aptuit contribution as well as some growth from the core EVT Execute business. Our strong presence in Europe in the integrated CMC area results in some of the change in the US Euro split, although it is clear that this may also be a simple timing situation with respective clients. What is clear is that our now proven integrated drug discovery and development offering is especially appreciated by the increasing virtual biotech companies and the more innovative mid-sized and even large Pharma companies.

Moving over to slide 11, this slide sums it up really nicely. We continue to progress our partnerships, many are expanding and extending, new projects have been signed, we still look to bring in technology that would help us in identifying novel chemical starting points for integrated drug discovery and development. We are pleased to have signed the new CRISPR licence agreement with ERS Genomics to have the European patent for the genetic screening and technologies using CRISPR.

And moving to slide 12 and speaking about innovative partners, this is an opportunity to show you this excellent white paper that we published along with the benefit of how true collaboration between companies with the same mind-set in terms of driving innovation towards achieving new medicines to the market. We have presented this paper on the multi-target endometriosis alliance with Bayer, and this is a collaboration that continues to meet and indeed really exceed all of its initial objective in this most debilitating female disease. The objective here, as it is with the majority of our partners, is to realise the sources and capabilities and ideas and innovation from both parties to drive products forward. In this case our aim was to drive three candidates into Phase I within a five-year period and as you know, to date we have six pre-clinical candidates who have been nominated and actually just recently, we nominated the third Phase I candidate in this fifth year of the alliance. So as well as having received multiple milestones and research funding over the last few years, this project will continue to feed into our pharmaceutical pipeline, which of course Cord will talk about later. And we anticipate further clinical milestones in the years ahead.

Slide 13 is a graphical representation that we announced to be the one-stop partner for external innovation going from target identification, validation, all the way through to first entry into the clinic and then supporting beyond. And as Werner said at the outset here, the acquisition of Aptuit is key to our extension of our already industry-leading discovery platform that we are able to deliver clinical ready compounds now to our partners and, if required, also support drug products and API supply through integrated CMC capabilities and capacities. How are we going to get do this with Aptuit is on slide 14. Well, the initial integration steps are effectively complete, the most important cause has been the coupling of technical competence, the use of pre-clinical activities, bringing that into the late de-risking phase of lead optimisation and then formally being able to move from discovery programmes and also the stand-alone programmes into the fully integrated pre-clinical package known as INDiGO. Technically and commercially we have that offering together, INDiGO, as you know, affords the time-efficient way to proceed through the pre-clinical to an IND or an equivalent submission and managing and coordinating all the activities within one organisation under one roof by industry-leading experts is the only and most efficient way in the market to bring our partners' products at the clinic. We launched INDiGO from a marketing perspective in Q1 2018 and although the process was already active in Aptuit, this was a more formal marketing approach and through a broader and deeper reach into our commercial partners, we have seen a significant response, such as the recent additions of Petra Pharma and now Carna Biosciences, a Japanese biotech, for our INDiGO purposes. We see the reach-through from our discovery projects we also see the selling of discovery projects through the ability to be able to support our partners, and we feel we can really develop this into a truly value-generating proposition.

So finally slide 15 and in summary, we are starting to realise and see the potential of the integration of the Aptuit acquisition, we continue to find new deals, both integrated and stand-alone. We progress existing ones successfully and of course, as you see, progress milestone-bearing projects. So our outlook for the rest of the year remains unchanged, and with that I thank you for your attention and I now pass over to Cord Dohrmann.

Cord Dohrmann

Thank you and good afternoon to everyone on the call. Last year was a spectacular year for EVT Innovate and the first quarter of 2018 has been a very solid start of what we believe will be another great year for EVT Innovate. Just as a reminder, the EVT Innovate business segment is focused on long-term value generation through high-value Pharma partnerships which not only deliver significant R&D payments but also very significant upside value through potential milestones and royalties. Milestones usually range in the range of a few hundred millions, whereas royalties are tiered usually and can reach in many cases double-digit percentages. Based on the performance in the first quarter, and the first and current outlook for the remainder of the year, we expect that EVT Innovate will deliver very significant growth in 2018.

On my first slide, slide 17, EVT Innovate's financial performance is summarised: Revenues from EVT Innovate are very solid and in line with expectations, although slightly lower than in the first quarter of last year, due to lower milestone contribution in Q1 2018. We do expect that milestone contributions will increase in-line with our growing portfolio of co-owned product opportunities, however, we cannot predict when exactly milestones will be reached in additional projects and thus the milestone contribution can vary very significantly from quarter to quarter. Due to the lower milestone contribution in the first quarter in 2018, EBITDA is also a bit lower than in previous years and R&D expenses, as you can see, are currently in line with prior year. So in conclusion EVT Innovate had a very solid start into 2018, laying a very good foundation for significant further growth in 2018.

On the following page, slide 18, I want to give a brief update on our current product pipeline. We continue to make progress in our early-stage and development-stage partnerships and in the first quarter of 2018, we have already had significant progress to report from our Bayer endometriosis alliance. In this alliance we recently introduced a programme into Phase I of clinical development, this is now the third clinical-stage programme coming out of this alliance which was only started at the end

of 2012. We have good reasons to believe that we will be able to report further advancements of this pipeline during the remainder of the year and are very much looking forward to this.

On the next slide, slide 19, we would like to emphasise that within EVT Innovate we continue to invest into paradigm-shifting platforms and transformative projects. As the Pharma industry as a whole struggles with declining productivity, the rate of return on drug development investments has been decreasing very steadily over the past few years. According to some estimates, the rate of return could actually be approaching zero percent in 2020, if productivity continues to decline at the current rates. The declining rate of return is largely due to two factors: firstly, rates for clinical trials continue to hover around the mid-single-digit range while R&D costs to develop a new drug are steadily increasing and now estimated to be greater than $ 2.5 bn per drug introduced into the market. At Evotec, we firmly believe that new approaches and platforms and also business models have the potential to reverse this trend. New technological developments in fields such artificial intelligence, stem cell technology and organoid cultures as well as proteomics and molecular phenotyping are on the verge of being integrated into our discovery value train. Our EVT Innovate R&D investments are geared to drive and accelerate these developments and make them available to our partners in the context of the EVT Innovate business models.

One example of innovative technology platforms is shown on the next slide, slide 20. Patient-centric approaches, and here in particular iPSC technology, can address a problem of typically low clinical success rates, which is a stage of development where actually the costs are high. We continue to make great progress in the development of Evotec's unique iPSC platform, adding more and more unique patient-derived disease models and cell types and in our iPSC-driven partnerships we reported the achievement of important milestones in the past and are confident that there are more to come in the future. We continue to invest also into next-generation projects which will hopefully drive future partnerships in this area.

Beyond investments into paradigm-shifting platforms we also continue to invest in the acceleration of pipeline of drug candidates, as you can see on slide 21. We feel that the field that offers challenges but also lots of opportunity is the field of infectious diseases. This field certainly deserves more attention and is in dire need of new approaches. At Evotec we first ventured into infectious diseases with the acquisition of Euprotec in 2014, a business unit that has grown very significantly since then. We built partnerships with Harvard and Oxford University and other academic institutions but also invested into exciting start-ups such as Forge. Most recently we announced that we are planning to enter into a strategic partnership with Sanofi in infectious diseases which is expected to close in Q2 of this year. This partnership will be a very significant step forward to become a global leader in the field of infectious disease drug discovery. And after the closing of this transaction, Evotec will have one of the largest infectious disease drug discovery platforms and pipelines with over 150 highly experienced scientists and over 20 projects in the field of anti-microbials, anti-virals but also in the global health field.

With this I would like to move to slide 22 and update you on our academic BRIDGE strategy. Over the past six to seven years, we have built collaborations with over 50 academic laboratories. These academic collaborations with leading academic institutions and researchers are a basically sheer endless source of innovation that feeds our EVT Innovate strategy. Today I would like to point out that our academic BRIDGE strategy has evolved significantly. We have made this more strategic and more efficient and more productive than ever before by combining strategic Venture Capital funding with highly innovative projects and highest quality drug discovery platforms into the framework agreements that vastly reduce research costs but also contract negotiation timelines and timing costs to key data points. Our LAB**282** with Oxford University and similarly our LAB150 in Toronto are two key examples of this. Both of these academic BRIDGES were only formed fairly recently. LAB**282** with Oxford was formed at the end of 2016 and LAB150 in Toronto at the end of 2017. For LAB**282** alone, we have selected and established 17 projects in a period of less than 18 months. Obviously not all of these projects will make it to market but we are convinced that it will be the fastest and most efficient way to key data points that will allow for the assessment and improved decision making regarding the best possible development of these projects. We are convinced that Evotec's academic BRIDGE model will become a blue print for many

Pharma companies going forward, and that academic institutions as well are hopeful to participate in quite a number of these going forward as well.

So looking forward in EVT Innovate in 2018, our expectations are summarised on slide 23. We do expect to progress our portfolio of co-owned product opportunities and this is also our clinical stage pipeline. We also want to further expand our academic BRIDGE network in Europe as well as in the USA and we expect significant progress in our R&D portfolio and based on these projects we expect to structure new EVT Innovate partnerships. And finally, we will continue to invest into paradigm-shifting platforms to make drug discovery more translatable, more efficient and ultimately productive and a key area will continue to be going forward the iPSC platform. Thank you for your attention, and now over to Enno.

Enno Spillner

Thank you Cord and welcome from my side as well to everyone on the call introducing the Q1 2018 numbers to you right now. Let me make a brief upfront statement with regard to a former topic as from 01 January 2018 onwards, Evotec will now apply IFRS 15 in our financial year 2018, which is mandatory and for comparison reasons we have also adjusted the 2017 numbers accordingly. That said, overall you can find additional information already in our Annual Report for 2017 on this topic on page 92 in the English version, and this has no significant impact so far on our financial numbers in general.

On slide 25 let me now introduce our strong financial numbers for Q1 2018. A significant step-up of the revenues has been achieved compared to Q1 2017, increasing by 55%, which is mainly due to positive contributions by Aptuit and growth in the Evotec base business, which means also without Aptuit and without Cyprotex, we would have seen an upswing in our revenues, so also the core business of Evotec keeps growing strongly. That said, please bear in mind that we have not yet seen significant more volume in milestones in 2018 as indicated by Cord and Mario. This was different in Q1 2017, where we had received several milestones at the beginning of the year already, obviously with a beneficial impact on revenue, gross margin and also EBITDA at that time. Looking at the gross margin, which reduced from 37.3 to 23.4%, there are mainly four effects which I will describe on a separate slide, but as a summary up front, this is about amortisation. This is a different revenue mix, this is a smaller amount of milestones year to date and this is a challenging foreign exchange environment. R&D expenses remain stable, while SG&A increased as expected and as already forecast in our last conference call. The main reasons here obviously are now Aptuit for the first months with their SG&A and the first few months in 2018, growth of the SG&A team overall, including Business Development, we have some M&A activities coming from the Sanofi transaction that Cord just described and obviously from the Aptuit integration and we have other topics on-going like implementation of new systems, infrastructure, additional buildings and so on. On the other operating income, we see quite an uptick on the increase in R&D tax credits, which is mainly coming from France and from the UK and now since end of 2017 already but getting more traction in Italy from our Verona site as the Aptuit branch. And we hope to further develop this area as a contribution to our overall financials.

Looking at the adjusted Group EBITDA: It increased by 4% and reflects the growth in the base business and obviously the contribution from our strategic acquisitions like Aptuit and Cyprotex. Something to be mentioned which is not on the slide here but our cash position, which is cash and cash equivalents and investments, amounts to € 78.5 m compared to € 91.2 m at the end of the year. Consequently right now we feel operationally and financially in a quite strong position here with this amount of money, with no immediate need for further financing at this point in time.

Looking at the next slide and diving a bit into the segments, starting with the EVT Execute segment: Regarding EVT Execute, basically all the effects that I just described on the previous slide also apply for this segment, in particular the impact obviously of the Aptuit acquisition on the P&L, which mainly effects the EVT Execute segment as Aptuit is obviously part of the segment delivering business services. Revenues in this segment significantly expanded and are driven by good performance in the base business and adding, as mentioned, € 25.3 m by Aptuit. The reasons for the reduced gross margin mainly are the same reasons as described on the previous page, we will come to that in a second. And

also regarding the SG&A development as well as the increased other operating income, they are mainly the same arguments as shown on the previous page, e.g. increase in our tax credit achievements. On the EVT Innovate segment we do have a reduction in revenues by approximately € 2.1 m, as already mentioned just a minute ago by Cord. However, just looking at the base revenue we do have an increase by approx. 20%, thus making good progress on the base revenue level if you compare it to the first quarter 2017. The reductions in gross margin is a logical consequence of the milestone timing and the R&D expenses are stable, in Q1 2018 they were with a focus on CNS, metabolic diseases, oncology and the academic BRIDGE initiatives that were just described. Overall I would like to reiterate what Cord already mentioned, this is the confirmation of my statement also from the last call in March that it is better from a milestone perspective to look at a full year instead of the individual quarter, since we have a certain volatility in these developments, and in achieving the milestones.

On slide 27 we will look a bit closer at analytics of Group revenues and the gross margin. We have a significant step-up of revenues compared to Q1 2017, as mentioned before. Aptuit contributing € 25.3 m and the rest of the step-up is within the base business of Evotec, and if you take out milestones, upfront payments and licences and then also take out the Aptuit contribution, you would be looking at a base revenue increase of about 14%. And this really shows you that we will have strong growth rates in our core business, too. One can also see that the milestones, upfronts and licences are significantly lower than last year, which then also has a strong influence on gross margin and EBITDA as in most cases there is no cost accounted against the milestone revenue recognition. The other part, if we had been at constant foreign exchange rate, we would have seen roughly € 3.3 m more in revenues compared to last year or an improvement of 1.8 percentage points in our gross margin.

Coming to the gross margin: As I mentioned, there are four major effects and the amortisation of our strategic measures, Aptuit and Cyprotex in particular, € 3.1 m, is probably the biggest position here and also here the gross margin without the amortisation would improve by roughly 3.8 percentage point, so this is something that we clearly have to keep in mind. We have a first contribution of the first three months now including Aptuit with a different revenue mix, and we have also the impact of the FX which on the gross margin level would change the amount by roughly € 2.2 m if we applied the FX rate of last year, just for your comparison.

Next slide, guidance: We can confirm our guidance and the numbers were described in the beginning, so we want to achieve 3x30%: 30% increase in Group revenue, about 30% step-up in the Group EBITDA and investing in the range of € 20-30 m into R&D and new innovation. I conclude my part of the presentation and hand back to Werner. Thank you.

Werner Lanthaler

Thank you. We are now open for questions.

Falko Friedrichs (Deutsche Bank)

Thank you, I have three questions. Firstly on the gross margin, can you give us a rough idea of what we can expect here on a full year basis? Is it a fair assumption that it will likely be below last year's level and also: Can you provide some insight how the gross margin at Aptuit could be brought up to the Evotec levels? Secondly: Could you tell us how much of the other operating income line actually comes from these R&D tax credits and whether we can use that as a quarterly run rate for the year? And my third question: You mentioned continuous focus on the extension of the iPSC platform. It would be great if you could provide some additional colour on the recent developments here.

Werner Lanthaler

Thank you so much. First on the gross margin question which I will hand over to Mario, you should see that it is not about bringing up one part of the Company to another part of the Company. It is really about bringing all of our projects and all the processes together to ultimately run the best possible integrated projects for our partners. Of course, a lot of the businesses that we have in Aptuit have a different gross margin in the markets than what Evotec does in high innovation discovery. Having said that: You will see the gross margin of Aptuit will improve significantly because of the fact that there will be more integrated deals coming but what you should also appreciate, we have only acquired Aptuit and taking it over in the third quarter of 2017 so you cannot change an on-going business which is very healthy in the context there because these are long-term contracts that are running. So the effects that you will see will take a while but they will come and to give a bit more colour, I hand over to Mario.

Mario Polywka

I am not sure how much more colour I can add to that, Werner, very clear explanation there. I think there is a fundamental lower margin with some of Aptuit's work because it involves a significant more material aspect, if you are making API and from then the product, the raw material, which have to be taken as revenue because it is part of the product you are making, will of course dilute against the other costs of the project. But, I agree, as Werner said, in the early days of the acquisition we absolutely see the strategic rationale and now our clients see the strategic rationale for this, and the way to access better margins is to pull that together within drug discovery. The key thing here is that it is of course INDiGO, we are finding a tremendous take-up of that going forward, it will improve to what it used to be and of course the more capacity we use on INDiGO then that will of course drive up margins. And we are accessing clients from a discovery base that are tied into us, a captive audience, and we need to drive that strategically through beyond INDiGO and in a lot of cases into integrated CMC, where margins are considerably higher.

Werner Lanthaler

The question on visibility of tax credits going forward goes to Enno.

Enno Spillner

Yes, so tax credits in this quarter were in the range of € 5-6 m, that said we should be a bit careful taking this as a given for the next quarters to come because this depends on the projects which are eligible for R&D tax credit applications, and also on the partner, on the other side who is working on these projects because if they have an R&D tax credit accreditation then sometimes you cannot fully or not at all claim for it on the Evotec side. But obviously you can see that there is an increase compared to the previous years and we will work on this to further step this up, and obviously as now Aptuit came on board, we have a third country which is allowing us to claim for tax credits, which in Germany and Switzerland we are not allowed to do in such a way.

Werner Lanthaler

I think the iPSC question has only one natural owner: Cord.

Cord Dohrmann

So in the iPSC space we have already built very significant partnerships in the area of neurodegeneration and diabetes and of course there are many additional areas where iPSC technology can have a very

significant impact. And here we currently have on our short list of areas in particular neurodevelopmental disorders, which lends itself extremely well to the technology, but also kidney diseases and certain eye diseases, muscle wasting diseases, including MS, and quite a number of additional areas that we feel are highly exciting in this context. In each of these areas the goal is really to reflect as large a patient population as possible, which means to continuously expand disease models of individual patients that reflect certain portions of such a patient population. And increasingly as iPSC cell technology is taking hold here, iPSC technology is not only used to reflect individual cell types, which are manifold essentially for the different diseases, but also to build organics and organ-like structured bases on iPSC technology. So going forward this is only just the beginning of how to systematically implement iPSC technology in the drug discovery process. And here building large libraries of patient-derived disease models and ultimately becoming closer to the vision of creating the potential to conduct clinical trials and thereby then actually stratify patient populations for subsequent clinical trials and thus hopefully improve clinical outcomes over the clinical success rates.

Joseph Hedden (RX Securities)

I have two questions, if I may. Firstly, the first quarter contribution from Aptuit of € 25.3 m was below the Q4 2017 number of € 30.9 m, can you just elude to if there is anything significant driving that? And secondly, I would be interested if you could tell us the amount of your amortisation charge for Aptuit and Cyprotex that is going through the cost of goods? Thank you.

Werner Lanthaler

Amortisation question to Enno and maybe Mario you can give a bit of the business mix and top-line mix colour at the beginning – that would be great.

Mario Polywka

Thank you, there is nothing really behind the slightly higher Q4 of 2017 versus Q1 2018 that Q4 is always, and this is across all of Evotec business lines, a heavy quarter, as you would have seen in previous years, and of course a lot of the Aptuit business is largely fee-for-service business versus the Evotec classical discovery business, which is long-running FTE business. So you can get timing issues where you get multiple projects finished within a particular quarter. So nothing really fundamental there at all, the classical strong Q4 and as we go into 2018 will build up to the quarters of the business going forward.

Enno Spillner

So out of the total amortisation that we have in right now, which is about € 3.1 m, roughly € 2.8 m and thus the major portion go to Aptuit and Cyprotex in total and that will obviously decrease over the years slightly, but on average this should be the numbers in 2018.

Joseph Hedden (RX Securities)

Enno, is that going all through the cost-of-good line?

Enno Spillner

Yes.

Igor Kim (Oddo BHF)

I have a couple of questions, first on INDiGO programmes now Petra and Carna– how many projects do you expect by the end of 2018, I mean INDiGO projects, and how many INDiGO projects do you expect in the mid-term, let's say in five years? And one question on iPSC cells – are there any other similar iPSC technologies apart from yours, and if there are any, could you give a bit of colour how you differ from them? That would be helpful.

Werner Lanthaler

Second question is either an answer of hours or an answer of 20 seconds, I don't know how Cord will do it but it goes to Cord, and the first question goes to Mario where I think the short message is: We cannot give too much guidance but overall we see a very, very great offering that we are putting together here with INDiGO, but on the quantitative it would be good, Mario, if you could give a bit of colour.

Mario Polywka

Yes, thank you. First of all, don't be mistaken that by the number of the of two press releases, Petra and Carna, because at the moment I think we have approximately 10 to 12 INDIGOs ongoing, so there is backup there. At any one time we can probably do between 20 annualised completed INDiGOs, it is our view, and we have already started some investment, to be able to increase that by at least 30 or 40% over the next few years and then perhaps going up further into 2020, 2021 being able to double that. Of course the key capacity is tox capacity, there are only so many months in a year, of course, and the number of rooms to do that is very important. But also very importantly it is about API, because one of the key areas here is being able to generate the API to make the drug product to go forward and run the GOP tox and the safety pharmacology, and that can depend on the type of process. So we get some horrific API processes in the 20+ steps which of course take a while to make a few kg of GNP or we can get the simple ones. So the answer is ongoing, probably around 20 or so within the year, we hope to double that within the next three to four years.

Cord Dohrmann

IPSC technology is fairly unique in the regard that it is possible to really devise very much individual patient-derived these models. So there is nothing like it on that level, when it comes to what makes Evotec special in the iPSC disease model space, it is really the adaptation of a process that was originally established in academia but we have industrialised the process to a point that we have been able to adapt the generation of specific cell types, be it neuronal cell types, endocrine cell types or others into a high throughput format that allows us to make these cell types in a 384-well format that is high throughput screenable and that is really the key differentiator where we have achieved an industrialisation and robustness of the process that is currently unparalleled in the industry and where we feel we have a step-up on everyone else at this point in time.

Victoria English (Evernow Publishing Limited)

I essentially have two questions: One concerns the comments that were made about rate of return on R&D and I am wondering whether the prognosis that you have given, which is really quite pessimistic, is for the industry as a whole or for a certain segment of the industry, and the reason why I am asking is that it was not very long ago that GlaxoSmithKline was talking about achieving a 14% rate of return R&D at GSK. The second question concerns the anti-infectives project that you have underway with Sanofi. When I first read the press release it was not clear to me whether any Sanofi assets would be transferred to Evotec? So that is a simple question, and secondly I can see that Novo Nordisk is a

shareholder and Novo Holding has recently set up a fund to finance antibiotics and I am wondering to what extent Novo is involved in this anti-infective initiative?

Werner Lanthaler

Victoria, first welcome, secondly, the questions, I start with the last one. Novo Holdings set up the REPAIR fund which is exactly focusing on projects that are not in the typical sweet spot of the venture capital world as longer times needed for development in the pre-clinic and the REPAIR fund with about $ 150 m funding is a fund where many academic projects now can go to and have an additional source of funding which I think illustrates the picture that the co-development partners and the reporting partners for anti-infective projects is not only Pharma companies, because they increasingly are getting out of the segment, it is really other institutions and organisations that provide the funding for these projects. So I think this is a great synergy here that can be seen and that we will try to capitalise on going forward.

On the question on whether there are assets from Sanofi being transferred within our contemplated transaction, yes, there are all portfolio assets that are in this infectious disease unit in there coming with the transaction, so we take more than 10 ongoing projects, most of them in discovery or in the pre-clinical stage as the basis for this portfolio work that we bring forward. And that is also the factor that we want to bring forward into this portfolio building. On your general question of rate of return in R&D – we first of all have to differentiate that we at Evotec are going into first-in-class, best-in-class innovations where currently you either have suboptimal treatments or no treatments, that is of course where it takes a lot of scientific breakthrough and the second dimension that we all have to face is to increase customization. In general, the targeted markets will not get larger but smaller which also has the potential to get potentially clinical timelines and costs down but I think what we are all experiencing, only if you have a very well defined early discovery or pre-clinical candidate that you can translate into the clinic and you can achieve eventually rate of returns in discovery. I think this old style – let's go with many projects into Phase II and then see what works best, that is over because that does not work anymore. And here the idea of creating early-stage portfolios with our partners, benchmarking early target, very early in the discovery phase on the best platforms is just superior to how the world has done in this in the past – why? Because the low returns within Pharma companies comes from essentially low utilisation of fixed costs of these platforms because they only had one customers to drive projects forward. With Evotec you have many customers to utilise our platforms which then drive the R&D productivity up, so I think yes, R&D is a challenge but if there is a place where it will be increased, then it is us.

Alex Cogut (Kempen)

I have a couple of questions on milestones: Could you provide a bit more colour into the split of milestones of EVT Execute and EVT Innovate, and to get a feeling for milestone revenue for 2018 – would you expect some in Q3 or is it more rather towards H2? 2 more questions on INDiGO: Is it fair to say the new projects you announced this year are more at the gross margin level of the Evotec base business? And a more fun and interesting question: What is the next major reflection point for the development of the iPSC platform? Thank you.

Werner Lanthaler

The first thing is, milestones are not driven by quarterly events, i.e. a time function, milestones are driven by biology and that is why a milestone for us is not on the cash event and milestones for us, more than anything else, is a value event where science is progressing into a different value phase. Keep this in mind because sometimes we get confused by just looking at quarter by quarter, is there now a million or not, that is not really what is happening here. A milestone represents a massive value event because one effort is going forward in its biological development. Timing these biological events

is not that easy, the nice things for us is that we have more than 80 projects that are linked to milestones and that are fully invested, so there is a lot going on more than ever before that is what is reflected, if you look at the milestone curve over the last years, it has been growing steadily which is a reflection of the higher value that this portfolio generates over time. And you have not seen many milestones in Q1, I think you should prepare for more milestones to come because there are more experiments that are reading out in the next quarters and the nice thing about our business is that even if worst case scenario happens where no milestone would come, you would still have had a nicely profitable, not in need of any funding running biotech company which then has even more projects going forward because we are always generating new milestone-bearing projects.
A very long answer to your question, second in EVT Execute we typically do not have milestone-bearing projects as one or two examples that are there from a mix of targets that have become together by the IP of our partners and from our IP which we then for historic reasons at this stage are reporting under the EVT Execute segment, the most prominent of that is the endometriosis collaboration with Bayer, so going forward you will see milestones in EVT Execute from out of this collaboration but I would say 80% of the milestone-bearing projects going forward will be EVT Innovate projects that are there. And on iPSC, the next value inflection point, there are many logical events but there are two read-outs that will come in the next 12 months from the existing alliances, one is our beta cell projects with Sanofi where we will see a very critical experiment on beta cells and how they behave in little organs or living systems and the second experiment is what is ongoing in our CNS collaboration with Celgene where we hope to see novel targets that are screenable under our platforms which then allows really novel targets through these platforms to go forward, so that is as exciting as it gets scientifically but more importantly that is creating long-term value. The other thing is that we are currently on more than 5 unpartnered iPSC projects that we are contemplating to partner in the next years. The nice thing here is also that it is all happening on our platform, so there is no need for partnering and the projects are nevertheless progressing at full speed.
And INDiGO gross margin, as Mario illustrated, INDiGO is a package that has different components behind it and you see higher gross margin packages and lower gross margin packages but I think the target is here to come to our EVT Execute margin as a minimum of going forward, if not higher and that is what Mario and the team is driving every day to bring margins up above 25% significantly.

Mick Cooper (Trinity Delta)

I have a question about the BRIDGE, imagining you have a lot of universities knocking at your door asking to form these BRIDGE collaborations with you – how to decide which universities you go with, and on a related theme, you are working currently with 60 universities or departments, how many networks can you realistically manage and quote a number there?

Werner Lanthaler

It is all about quality, which is the first thing to answer. The second thing on this one is, never forget that Evotec is razor-sharp focused on drug discovery in early development only. So for us we can quickly assess if a scientific project fits to a disease area or not, specifically if innovation is high or not so high, so here you really have a fantastic parameter and the platform with 2,300 employees in disease areas is so well-trained in understanding what is the latest science, what is the scientific progress that there is an enormous throughput that this organisation can manage, so I would not be afraid of any limitation in scale here, which brings me to the number of academic places that we want to find up with BRIDGE funds.
As you have seen we have LAB150 in Toronto, we have LAB**282** in Oxford which are clearly two geographies of outstanding quality that we have signed up. We have ongoing relationships with Harvard, Yale and other institutions that are in the top league, so I would say by target list are the top 50 academic places globally and that is what we will roll up over time and it does not need to be all done in one quarter, that is an ongoing process over the next years. This brings me back to our strategy, which is long-term and therefore you will see with these bridges in the future. Ten years ago, no

academic institution had a career centre, now everyone has a career centre and in ten years from now everyone will have a BRIDGE and that is how we approach that.

Thank you so much for the questions and for following Evotec and to all our co-workers who produce what we can discuss with you on the fantastic progress of the Company. Have a great day. Thank you.