Evotec AG
Transcript of the Conference Call
Infectious Diseases: Evotec and Sanofi in exclusive talks, 08 March 2018 – 2.00 p.m. CET

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

Operator
Dear ladies and gentlemen. Welcome to the conference call of Evotec AG. At our customer's request, this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press *-key followed by 0 on your telephone for operator assistance. May I now hand you over to Dr Werner Lanthaler, CEO, who will lead you through this conference. Please, go ahead Sir.

Werner Lanthaler
Bonjour, je m'appelle Werner et je travaille à Evotec. Good morning, this is Werner speaking from Evotec and I am very happy here to say hello to you together with my colleagues from the management team Cord, Enno and Mario to introduce you to an alliance we are about to build with Sanofi where we intend on a broad scale to accelerate drug discovery and development to combat infectious diseases. We have posted a presentation which we will guide you though and you can download this presentation on the webcast and on the Internet to follow this presentation. If you go to this presentation on page number 3, I would like to introduce to you the idea that currently there are 2,100 scientists working at Evotec in 7 disease areas and today we only want to highlight one disease area, namely anti-infectives. But in all 7 disease areas we have one very clear mission, we go for first-in-class drug discovery to make new products going into the pipelines of our partners and we are creating platforms to accelerate drug discovery. When it comes to the today announced alliance I would like to use a quote from an ice hockey player named Wayne Gretzky. He said "I skate to where the puck is going to be, not where it has been." I think this is the spirit what brings Sanofi and Evotec together here. Sanofi and Evotec understand that there is a massive need out there in infectious diseases but we have to find more efficient ways to combat this. And with this ground-breaking initiative in infectious diseases, Evotec is leading a platform to accelerate R&D for novel anti-infectives where Sanofi will ultimately have opt-in rights into products that we're gonna present to Sanofi and if Sanofi doesn't take them everyone else should benefit from these efforts. Sanofi will transfer about 100 top-class scientists to Evotec and we are welcoming them in our universe. We will create an open R&D platform to support academic biotech and pharma companies in fighting infectious diseases and this is the idea of a space where open innovation is just starting because it's urgently needed. There will be an initial payment of 60 million but we are very happy that we see the long-term commitment in ongoing funding into the next five years coming from Sanofi into this alliance. We are very happy that we are hopeful to close this alliance still in the first half of 2018. On page number 5 of this presentation, we just want to highlight the strategic goals of what we're doing here. It's a pipeline-building collaboration in infectious diseases where we are taking over more than 10 early-stage R&D projects out of a top-class pipeline from Sanofi and where we are going to basically accelerate these targets into product grade situations. What comes together here is together with our competence that has been built in Manchester, Alderley Park and in our recent acquisition from Aptuit in Verona is the competence to really create an industry-leading platform with more than 150 scientists that are active in creating translational science in infectious diseases. This pioneering approach in open innovation should attract also NGOs and other people who are supporting this field in basically creating better and more solid bridges over the "valley of death" for product development in infectious diseases. When it comes to page number 6 of this presentation, we would like to highlight that there is a very trustful relationship between Sanofi and Evotec which started in May 2015 where we in a similar

transaction have started to build together with our colleagues in Toulouse a platform and a pipeline acceleration idea in the field of oncology where we are very happy to say that after two a half years we see the progress. We see a fantastic culture in Toulouse that fits perfectly to Evotec and that's why we are so hopeful that also for our colleagues in Lyon it will be a great way in joining our group. When it comes to Evotec you should always imagine a large platform of scientists that are working together in a very distinct business model. I will hand over to my colleague Mario who will bring you into this idea of the business model.

Mario Polywka
Thank you Werner and good afternoon everybody. It's a pleasure to present you this afternoon on this fantastically exciting and innovative collaboration with Sanofi. This collaboration fits perfectly, we are on slide 7 now, fits perfectly and very consistently into our EVT Execute and EVT Innovate business model. Remember both segments operate of a common drug discovery and development platform. With Evotec Execute we drive our partners' intellectual property towards products and through Innovate we drive our own or licenced intellectual property towards products and partnerships. So this transaction beautifully straddles both segments, providing a first-in-class pipeline of new assets, that complements our own internal pipeline, and Cord will talk about that later, and also uses and augments the expertise and the experience we already have in working with many of the world's premier infectious-disease companies in the Execute business segment. Moving to slide 8, you know we should remind ourselves that, as Werner said, the trust between Sanofi and Evotec and the tremendous width and breadth of collaborations we had then, that Evotec was always the ideal partner for this collaboration, which is also strengthened by our existing infectious-disease platform, primarily based in Alderley Park, which we acquired through the acquisition of Euprotec in 2014. Of course, platform expertise and disease biology expertise that came through the Toulouse transaction in 2015, and also through the acquisition of Aptuit, Verona, in 2017. So these operations are critical to the success of this collaboration, as there is a complementary set of specialised capabilities in the area. We have experts in medicinal chemistry of infectious disease, screenings against unique collections of pathogens, microbiology, *in-vivo* translational pharmacology etc., etc. Manchester, Verona, Toulouse, they will continue to grow and support our existing and our new partners and, of course, provide the complementary capabilities to what is in Lyon, in accelerating this exciting open innovation platform in infectious disease. On the following slide, slide 9, this is just to remind you where we come to now in terms of the platform that can really help support such an open innovation play. The acquisition of Aptuit, to remind you again of 2017, this established a truly unique offering in the market place. This is a drug discovery and development platform now that can accelerate science ideas, programmes from the most basic research through to submission of an IND and into clinical trials operating agnostically across many target classes and having deep disease biology expertise in the areas that Werner briefly showed earlier. We should remind ourselves that the Aptuit Verona site was actually born from a big pharma site which had a significant operation and interest in infectious disease. And hence, the pre-clinical expertise that we gained through the acquisition of Aptuit and the INDiGO activities, to take something from pre-clinical suiting phase 1, perfectly complements as well what we can see in Lyon, Manchester, and Toulouse. So that sets the scene for how this fits perfectly into Evotec's business model onto the platform, builds and augments the platform we have towards successful generation of next new antibiotics and other infectious-disease agents. I will pass you on to Cord now, he will take you more into the strategic rationale of the collaboration and the more specific objectives.

Cord Dohrmann
Thank you Mario and good afternoon to everybody on the call. We all understand the importance of infectious diseases as we are continuously confronted with them during our daily life. An infective scratch or an ear infection or even pneumonia usually does not pose a serious problem for us as long as our current arsenal of anti-infective agents is working effectively. However, this really fairly comfortable situation is changing and will continue to change dramatically in the future as antibiotic resistance is spreading rapidly all over the world. The threat of multi-drug resistance, bacterial pathogens that do not respond to currently available treatments is real and threatens modern medicines as we know it and thus also threatens of course our health and prosperity. On page 11 you can see that the discovery of penicillin in 1940 marked the beginning of a golden age of antibiotics. Many potentially life-threatening infections became easily treatable and curable. The threat of

antibiotic resistance is relatively new and is largely caused through the widespread use of antibiotics outside of medicine but in parts is also due to the insufficient stewardship in the medical community. Antibiotic-resistant strains were first observed in the 80s but the development of resistant strains is constantly accelerating since then. More recently, the development of multi-drug resistant strains is starting to threaten modern medicine as only very few antibiotic drug classes have been introduced to the markets in the last 40 years. This means when it comes to antibiotic treatments we largely depend on discoveries that were made more than 50 years ago. The fact that current development pipelines are very thin and lack breakthrough innovation only exacerbates the threat of antimicrobial resistance. There is a real and present danger of a post-antibiotic era in which we will be confronted with bacterial pathogens for which no effective treatments are available. According to the WHO and the CDC, such a post-antibiotic era is already imminent if not already here. On slide 12 you can see that antibiotics resistance is not just a matter of inconvenience, but really is a matter of life and death. The death toll due to antibiotic resistance is expected to eclipse the death toll of cancer at the latest in 2050. In stark contrast to this staggering death toll due to antimicrobial resistance are current efforts in the pharma industry. In the immuno-oncology field alone there are currently about 1,000 clinical trials running, whereas there are only about 50 clinical studies ongoing in the field of antimicrobial resistance. This picture needs to change urgently. On slide 13, the limited efforts and [incomprehensible] in regards to novel anti-bacterial agents in clinical development is depicted in more detail. Of about 30 to 40 anti-bacterial agents that are currently tested in clinical development, only about half of them have activity against pathogens that are currently on the high priority list of pathogens of the WHO. Furthermore, what is really worrying, is the fact that currently there is only one new drug class in Phase III of clinical development that potentially addresses pathogens that are on the critical list of the WHO. Finally, the severe limitations of the current pipelines in terms of breadth but also in terms of innovation are further exemplified by the fact that currently there are only very few mechanisms and/or chemical series being explored in the clinics that are really novel and/or have first-in-class potential. In the future, this picture of a very limited pipeline of novel anti-bacterial agents in clinical development needs to change dramatically if we want to make sure that we can maintain our current standards of care. On slide 14, we would like to reiterate that point [incomprehensible] of highly innovative, antibacterial agents targeting especially drug-resistant pathogens is a real threat to all of us. Young infants, people in the prime of their life as well as the elderly, of course. Diseases that today are easily treated by antibiotics may turn once again into life-threatening diseases. This means that a routine surgery procedure, a dog bite or just a scratch or any seemingly simple bacterial infection could turn into a life-threatening situation. So what are the reasons for the depleted infectious disease pipelines and overall curbed interest of the pharmaceutical industry in infectious diseases? The reasons are of course manifold and some of them we tried to illustrate on slide 15. First of all, generally antibiotics are still very effective and for better or worse very, very cheap. Just an example: At Walmart you can buy a generic broad-spectrum antibiotic such as amoxicillin for about 5 US dollars for a whole treatment course. Thus, when you do NPD calculations for an infectious-disease project they usually fall short of expectation in terms of the financial returns, and therefore these are deprioritised. Secondly, they have a feeling that the low-hanging fruits have been harvested in infectious diseases and that the identification and development of highly effective novel antibiotics, especially against drug-resistant microbes, is probably as challenging as the discovery and development efforts for new drugs in more lucrative chronic disease areas. Finally, due to overall limited research activity, there is a perceived lack of opportunity. However, many high potential avenues are simply not explored with sufficient rigour due to lack of funding or limited access to infrastructure, to latest technologies or simply missing expertise. At Evotec, we firmly believe that there are many opportunities ready to be explored, given the right people, cutting-edge platforms and new business models. Since 2014, at Evotec we have continuously invested into building a world-leading infectious-disease platform based on industry-leading infectious-disease experts and have continuously incorporated new technologies, we have continuously structured new collaborations with leading academic institutions to ensure a sustainable flow of high-potential projects. This collaboration with Sanofi and the associated expansion of Evotec's infectious disease platform in Lyon accelerates our goal to become the leading infectious-disease open innovation platform which is accessible for everybody in the industry. Together with our partners we want to bring forward first-in-class projects on the basis of a technologically and scientifically leading infectious-disease infrastructure. On slide 16, you can see that the problem of antimicrobial resistance as a mayor global health threat has never been as well defined as today. Especially in the field of

bacterial pathogens, the critical targets and priorities are absolutely crystal clear. Primarily, these are common hospital bugs and in the community Vancomycin-Resistant Enterococci, Methocylin-Resistant Staphococcus Aurealus, and many more well-known bacteria with new properties. It is our goal to focus our efforts in particular on these priority pathogens and beyond this, also build a pipeline in the antiviral field as well as maintain our efforts in the global health sector. Our starting portfolio of infectious-diseases projects is shown in an illustrious fashion on slide 17. All of these projects are directed to disease areas of highest unmet medical need and have a clearly first-in-class potential. The majority of projects are directed against severe bacterial infections but we also pursue and intent to grow a pipeline of antiviral approaches as well as projects primarily intended for diseases of the developing world. The antimicrobial projects are primarily focused on severe gram-negative infections. The antiviral portfolio is focused currently on HPV and respiratory viral infections and the global health portfolio on Malaria, TB and chikungunya virus. The most advanced projects are currently in advanced stages of lead optimisation and are expected to enter clinical development in about 1.5 to 2 years' time. We are extremely excited about this pipeline as it matches our internal efforts very well which are actually shown on the next slide. The overall combined pipeline will consist of roughly 20 projects. All of them have first-in-class potential and are primarily focused on areas of highest unmet medical need in the field of antimicrobials but also antivirals. In the past few years we have built key partnerships and relationships with leading universities, biotech companies and foundations. In a partnership with Haplogen for example we are pursuing a completely novel antiviral target, with Forge a novel first-in-class gram-negative antibiotic, with Oxford we are currently working on a number of different projects in the anti-infectives world through our joint LAB282 bridge and with Antibiotic Research UK we are working on antibiotic resistance breakers. And most recently, we were fortunate enough to join the Scientific Advisory Board of Novo's REPAIR Impact Fund that was just recently founded. We will continue to work and expand our relationships with all our current partners, many of them are shown on the next slide. They have been instrumental in assembling our already broad and deep pipeline of highly exciting projects. However, with such a great and unique infectious-disease team in place as well as probably one of the broadest and most innovative platforms at our fingertips, we also intend to expand our efforts significantly. We want to reach out to potential partners all over the globe as we strongly believe that only in partnerships we will be able to overcome this imminent threat to our health, health care systems and ultimately societies. We would like to invite everybody who is interested in joining us in this effort to fight antimicrobial resistance but also infectious diseases in general. And we are looking forward to many more infectious-disease partnerships. And with this I would like to thank you for your attention and hand back to Werner.

Werner Lanthaler
Thank you very much. Let me round up on page 21. I think the need to get active here is clear. I think also the need to do something differently has been clearly seen by Sanofi and we are very happy that together with Sanofi we can go to switch from fixed costs to variable costs and become significantly more effective in helping to build pipelines in this disease area. And with this, this transaction becomes a win-win-situation for patients, but ultimately also for Sanofi and for Evotec. With this I would like to conclude this conference call and hand over and we are open for questions, thank you so much.

Operator
Thank you, we will now begin our question-and-answer session. If you have a question for our speakers, please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced you can ask a question. If you find your question is answered before it is your turn to speak, you can dial 02 to cancel your question. If you are using speaker equipment today, please lift the handset before making your selection. One moment please for the first question. We have received the first question, it comes from Falko Friedrichs of Deutsche Bank, please go ahead, your line is now open.

Mr Falko Friedrichs, Deutsche Bank
Hello, thanks for taking my questions. I would have three, please. Firstly, when and if the deal closes, how can we think about and model the phasing of the 60 million upfront payment. Secondly, could you potentially provide more colour on the potential future payments from Sanofi in addition to the upfront payment? And thirdly, could you shed some more light on the competitive environment in the

anti-infective space, specifically what makes you confident that you have one of the most comprehensive offerings here with your technology platform. Thank you.

Werner Lanthaler
Question number 1 and number 2, I will hand over to Enno. Question number 3, Cord and I will answer.

Enno Spillner
So, hello Falko, Enno speaking here. So, to your first question regarding the 60 million upfront. Obviously this upfront payment is meant to support the continuing activities of the infectious-disease unit including research and development funding, administrative funding, facilities and also CAPEX within that particular pool. So, the overall timeframe we are ringfencing this for this is over five years but, and then coming to your second question in that context, obviously that we will receive further additional funding of a significant amount that will be added over the roughly next five years by Sanofi again covering the blocks of costs that I just indicated like employees' facilities, CAPEX and obviously the significant development cost that we will contribute to in the next five years to come to.

Werner Lanthaler
I think it's fair to say it's a win-win partnership for both, switched costs from fixed to variable for Sanofi and with this it becomes for us a profitable performance-based partnership from day one. On the competitive situation, I think first of all you should imagine the field of infectious diseases and core infectious diseases in the translation to drugs, historically has only happened in large pharma. When you now look at the last fifteen years and this field within large pharma there has been an exodus out of this disease area and many large pharma companies basically have given up the new research in this field. So, large pharma would not be named at this stage the number-one competitor. I think here we are all in the same boat. What it comes to is scientifically you have many institutes out there where great scientific ideas are born, but these very often early targets then don't find their platform and don't find the access into the industry because they are really falling into this very often quoted "valley of death". But I think here there is a large number of top academic projects that are competitive to what we are trying to do but very many of them just don't get funded because we see funding for infectious diseases very often not there. There is a big amount of public funding available but very often public funding is then also not being translated on competitive product development platforms. So with this the idea of having a product-driven platform that is able to bridge from academia to pharma, I think we are building something which is very unique and therefore, I think, not only by claiming that we are now when we close in the first half of 2018, employing more than 170 scientists that are in this field where the total world today only has about 600 scientists that are translational scientists in infectious diseases, so about a third is working for Evotec, gives us this claim to be the number-one platform here that has to come together and of course we have to prove now by showing that we can efficiently progress the pipeline, that is the right way to go.

Mr Falko Friedrichs, Deutsche Bank
Perfect. Thank you very much.

Werner Lanthaler
Pleasure. Next question, please.

Operator
Thank you. The next question comes from Brigitte Delimacurts from Partners Securities. Please go ahead your line is now open.

Ms Brigitte Delimacurts, Partners Securities
Good afternoon. First of all, very exciting deal. Very nice to see that somebody has finally taken the initiative in infectious diseases. So, on to my questions, I have got three. The first one is quite clear on the projects that you are working on and when it comes to resistant bacterial infections and antivirals. What I haven't seen is any mention of anti-fungals, specifically Invasive Fungal Disease. It's also an area of high unmet need, there is virtually nothing in the pipeline. Just curious if you are having any thoughts about things like aspergillosis and candidemia candidiasis. Secondly, do you think

you will be able to take advantage of some of the financial incentives that have been implemented such as Carb-X or the ND4BB or any of those things to help fund a research in addition to what you'll be getting from Sanofi. And then the last question is probably a bit longer-term and esoteric but there has been a lot of discussion about potential market entry rewards, a bit like the ones we have seen for the stock piling against bioterrorism threats. I was just wondering what you have and whether these potential 1 billion market entry rewards might be there by the time the first products from your new collaboration might hit the market. Thank you.

Werner Lanthaler
The first question sounds very much like a Cord question. I would suggest question number 2 and 3 I will take.

Cord Dohrmann
Yes, thank you for the questions. So currently, as we exemplified here and stated, our current efforts are very much focused on antimicrobial resistance, on antivirals in certain areas and certain global health diseases and we certainly have anti-fungals on our list. We currently are not very active but we certainly have the capabilities to enter these fields and this is true not just for the anti-fungals but also potential bioterrorism threats. These are projects that we feel we can enter now much more effectively than prior to this transaction and we are certainly open but we are still looking for the right partners in these areas.

Werner Lanthaler
When it comes to the funding network out there, of course we will reach out and hope to see open doors with this initiative to the funding network where, just to name of few of them, Carb-X, BARDA, the Wellcome Trust, the WHO, national governments, the REPAIR Fund as recently launched, and many, many others have already shown that the awareness is there and also that there are funds available, for example what Bill & Melinda Gates is doing in this area has also been named. But what is really missing is the translation from the funds to effective platforms and to effective pipeline buildings. So I think that will be our offering to these funding agencies to create here bridges that brings this better and more flexible together than ever before and it was very important for us, nevertheless, not to model this into the success of this effort and have here a high expectation from day one. We have to build our business model very conservatively and therefore that would be great to come but we are not depending this effort on external funding, but of course we are very hopeful that it will come for example also from the European Union where we have good contacts already shown with our loan for innovation that we have recently received. Your third question on market rewards, I think it's not esoteric at all. It just shows us that despite the fact that regulatory authorities have already shown their willingness to set new incentives to come up with new tools, to bring new rewards systems to the market, that nevertheless the push from the scientific and translational side is not there yet. So, I think we are seeing here a situation that there are pull and push mechanisms where the business model for all of us is a bit broken but where many people try at this stage to get push and pull mechanisms together. And in this context we will reach out to everyone and try to create here an offering that ultimately allows faster to bring novel products to the patients.

Ms Brigitte Delimacurts, Partners Securities
Thank you very much indeed, very clear.

Operator
Thank you. We have a next question. It comes from Samir Devani of RX Securities. Please go ahead, your line is now open.

Mr Samir Devani, RX Securities
Hello, thanks for taking my question and congratulations on the very good deal. I just wanted to clarify the kind of option points for Sanofi. Just to confirm, that option covers any programmes that they are bringing into the collaboration.

Werner Lanthaler
We are very open here. Why? Because limiting options only to projects that they bring in that would also be again a pattern from old-way pharma thinking. In a precompetitive world, we just have to reach out now and create optionality. We have defined a way, together with Sanofi, that they should hopefully have many, many more options to opt-in, that they can progress through their Phase III pipeline. That's the intention here, that's also part of the exclusive negotiations ongoing but where we are on a very good path to find a solution which ultimately is not limiting us and providing enough flexibility for Sanofi going forward. Of course, there is a clear option on the projects they bring into the transaction.

Mr Samir Devani, RX Securities
I just need to clarify at which phase they get this option.

Werner Lanthaler
We have not clearly defined that stage because also here data should define the attractiveness of certain targets, sometimes earlier, sometimes later. As you know, translatability of the anti-infectives from animal models to the clinic is very good and very predictive. So, here sometimes a target could be an earlier option point than a later option point. What we have done, we have defined a mechanism of how these options then would be calculated so that it comes to fair deals where we create ultimately our goal into a co-owned pipeline together with them.

Mr Samir Devani, RX Securities
Okay, thanks very much.

Werner Lanthaler
What's also, here to these specifics. Most likely it's development stage where these options will be taken and not early pre-clinical stages. So don't expect that partnering in the pre-clinic has any meaningful strategic rationale here. We really want to bring these things forward to have meaningful option points in the clinic.

Mr Samir Devani, RX Securities
That's great. Thank you very much.

Operator
Thank you. The next question comes from Egoar Kim from Oddo BHF, please go ahead, your line is now open.

Mr Egoar Kim, Oddo BHF
Yes, hello. Congratulations on the good deal from my side. Just a couple of questions. So, the agreement is supposed to be for five years. Do you have optionalities to extend the agreement and if the agreement will not be extended what will be with the 100 employees? Will they be further integrated at Evotec and will be working on this infectious-disease platform? That would be helpful, thanks.

Werner Lanthaler
I think it's very clear to us that we have an initial term of five years. And that's also something where you should not assume any extension at this stage. Why? Because it's the goal to create success in these five years and to create massive opportunities for our top scientists, then to create here a vast pipeline of projects. 100 scientists might sound a lot but when you look at the problem ahead of us, in infectious diseases, it is not a lot. But I think that's really the goal here to progress one or two projects as fast as possible into the clinic in these five years to come. Hopefully here create option points for either Sanofi or someone else out there and with this leverage the platform that we have built in the meantime in year number 1, 2, 3 also wider networks of optionalities, that is then basically creating a lot of discovery and development work for our scientists in Lyon. But that's the plan, that's what we have successfully executed by the way in Toulouse. That's why we have created here already a role model how this can work. Of course with Lyon it's much more an Innovate type of partnership

than an Execute type of partnership we are building here, but it's clear also because there we have enough Innovate project starting points and that's why I think it's from a business perspective very easy for us to see the first years but also beyond that, that we gonna build here and go strategic in this field.

Mr Egoar Kim, Oddo BHF
Okay, thanks.

Werner Lanthaler
There is one other sentence to be said. We are from a cultural point of view scientifically thinking along the same lines as our colleagues in the infectious-disease area of Sanofi. I think that's very important that it's also their aspiration to go for top-class science, first-in-class mechanisms and that's I think then resonating very well with our partners outside but also that's exactly what is driving our forces in Verona. That's also exactly what is driving our scientists in Alderley Park. So that's why I think the cultural fit and integration will be fantastic.

Mr Egoar Kim, Oddo BHF
Great, thanks.

Operator
Thank you. As there are no further questions at the moment, I would hand back to you, gentlemen.

Werner Lanthaler
We would like to thank you so much to see that we are, as Evotec, going long in a topic which will not go away and where we all in our lifetime are in urgent need of solutions because infections are real. Thank you so much.

Operator
Ladies and gentlemen, thank you for your attendance. This call has been concluded, you may disconnect.