



Evotec AG

Transcript of the Conference Call

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

Operator

Ladies and gentlemen, welcome to the Q3 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. Please go ahead sir.

Werner Lanthaler

Welcome, this is Evotec from Hamburg and we are very happy that you have dialled in to this conference call to report our Q3 numbers of 2018. Delivering – that is what we state at the beginning of the presentation, which we have uploaded to the internet, and we would invite you to download this presentation and follow this conference call. When you go to page 2 of this presentation, let me introduce to you my team, which is here with me. I have Enno Spillner, CFO, I have Cord Dohrmann, our CSO and I have Mario Polywka, our COO here at the table with me. And let me start by saying thank you Mario, because Mario will, by the end of the year, retire and we are very happy that the transition in this Company was possible, as good as it gets, by having the full expertise of Mario in the Company and will continue to be able to work together in many different forms with Mario by making Evotec an even better place in the future.

When you go to page 3 of this presentation, you will see that change comes and change can be good. There is only one little thing that you will notice in the future, that the accent will change. So the Queen's English from Mario will be replaced by a Scottish accent that Craig will bring to this Company, but both are good for us, and there is no BREXIT in sight when it comes to the competence of the UK at Evotec. With this let me briefly hand over to Craig, and Craig, please introduce yourself to the audience.

Craig Johnstone

Thank you, Werner, and good afternoon to everyone on the call. I am really honoured and humbled to be taking on this exciting role, and I am really looking forward to working even more closely with the rest of the Management Board. Perhaps by way of a few words of introduction I can convey something about my professional background: I am a chemist by background, spent almost 20 years at AstraZeneca and had various scientific projects, functions and leadership roles in a number of disease areas. I joined Evotec six and a half years ago, first in Abingdon in the UK. In over nearly 25 years in the drug discovery game I have contributed to discovery of numerous drug candidates in clinical development. I moved with my family to France in 2015 to take over the Toulouse leadership when we took over the scientific locations there from Sanofi. Over the past three years and thanks to the tremendous engagement and super commitment of the team there, we have transferred the climate and have created a highly successful business unit, even ahead of our original expectations. In addition to my scientific track record, I have been a long-standing champion of initiatives, which can improve the execution and the delivery of drug discovery. For me this means creating a high-performing infrastructure, which enables our fantastic scientists to do the best they can by improving processing and investing in technologies, which can make drug discovery and development more



effective with a higher quality. In this context, one area of particular interest for me is the application of artificial intelligence to drug discovery and development programmes, and it is an area with huge potential for Evotec. So in summary, I look forward to bringing my own personal plans of drug discovery and development know-how, message for improvement of performance and focus on delivery to the role of COO. And finally, just before I hand back, I would really like to sincerely thank Mario for his help and patience in recent months during which we worked very closely together to prepare the transition between us. Thank you, Mario, from me, and with that, back to you, Werner.

Werner Lanthaler

Thank you so much. Coming to page 4 of this presentation, introducing to you our nine-month highlights, which are here on page 5. Scientific excellence meeting operational excellence – that is what is driving Evotec. We are benefiting from a macro trend in external innovation, which we bring to our business in all business lines, across the Company at this stage. You will see throughout this presentation that there is strong progress really in all parts of the business, which makes us very confident for this year to deliver and also confident for a 2019, which we will start strongly. Some corporate highlights in the recent months have happened, and I think that we can report back to you that our Action Plan 2022 is not only implemented, but fully up and running and one part of that was the integration of external innovation through Aptuit, which is on-going and on track, as you will see.

When you get to page 6 of this presentation, let me highlight that the business performance of Evotec at this stage is strong, maybe it is even fair to say that it is very strong. Enno will bring you into the numbers in more detail, but one thing is clear: That you see that the macro trends supporting our business leads us not only to significant growth, but we can outpace growth at this stage in the industry, when we compare this to all our competitors. The reason for that is that we deliver higher quality in this industry to drive scientific projects forward. On that note, please go to page 7, because that is the source for the high quality that we bring to this industry. Our fully integrated scientific platforms allow for better and faster solutions to drug discovery and development problems, and if you are able to deliver higher quality and higher speed solutions in drug discovery, you ultimately make your partners more competitive. That is our credo and that is what you see reflected in the two business segments, EVT Execute and EVT Innovate, where Mario will guide you now through EVT Execute.

Mario Polywka

Thank you very much, Werner, and good afternoon everybody. It is again a pleasure again to be on this call with you and provide further details on the excellent Q3 results. So as you can see on slide 9, for the nine-month period in 2018, EVT Execute revenues grew to € 254 m, a very impressive 53% growth over the same period in 2017. This tremendous growth was due to a continuous strong performance in the core Evotec business and a full nine-month contribution from the Aptuit business of € 84 m. A strong revenue growth is also accompanied by an equally impressive growth in EBITDA of more than € 20 m over last year's € 41 m results. Moving to slide 10, and as discussed in the six-month results call, the expanded business now benefits from a lower reliance on a few customers, with top ten client contributions for the first time now dropping below 50% of total revenues. This is mainly driven by the Aptuit acquisition, which tends to have shorter-term contracts as opposed to drug discovery, which often has long-term strategic terms. The customer split is quite even between Pharma and biotech, with Pharma probably skewed, due to the large strategic deals with Sanofi and Bayer, but the biotech levels also reflect the once-stop shop requirements by such companies. As an addendum, the geographical split remains similar over the last two quarters, again being dominated by our large European Pharma deals.

Slide 11 is to remind you of the value chain, which Werner talked about and within which we operate, especially since the acquisition of Aptuit. Supporting our partners from target identification seamlessly through the submission of regulatory documentations for first-in-man studies and then follow-on support in integrated CMC. This is reflected in slide 12, which highlights that on-going deals to be



successful and new deals accessing the platform that we have just described. Significant deals were signed in integrated drug discovery with Novo Nordisk and Ferring, whilst we have signed a further long-term extension of our contract with CHDI. Our screening, ADME-Tox, integrated CMC and many other stand-alone services are also experiencing strong demand.

Slide 13, especially associated with Aptuit, as we have spoken about, is our INDiGO offering, in which development candidates through the pre-clinical phase to regulatory submission happens. This is done in industry-leading efficiency and timelines. The way this is made possible is by having all activities, tox, API, drug product production, formulation, etc. all under one roof, seamlessly coordinated by excellence and project management. In 2018 we have signed a significant number of new INDiGO programmes, with companies such as Astex, Ankar, Inflazome, Yumanity, to name but a few. Of particular importance is the cross-selling opportunities that we have realized having this extension to our product offering. Discovery deals are now extended through to the IND submission phase, whereas before we only had the capabilities to go to a pre-clinical development candidate. This is of course a very attractive proposition for biotech companies, which lack the in-house expertise and experience. Importantly we are now able to pre-select compounds much earlier in the lead optimisation phase and are able to progress these seamlessly into the pre-clinic, eliminating much of the white space that currently exists. So finally, on page 14, as I bow out of Evotec, I am very pleased to report that 2018 will deliver a strong year's guidance, but importantly now, the level of new deals signed give us a great start deep into 2019. Thank you for your attention and for one last time, I will pass you on to my colleague, Cord Dohrmann.

Cord Dohrmann

Thank you, Mario and good afternoon to everyone on the call. Within Evotec's EVT Innovate's business segment, our focus is on building high-value partnerships, which carry a very significant financial upside. In addition to profitable R&D support, these partnerships let us participate in successful development and eventually market entry of drug product opportunities. EVT Innovate started 2018 with a very solid first half and continued on this path in the third quarter as well. Consequently, we are expecting an excellent year for EVT Innovate in 2018. The Q3 financial numbers shown on page 15 indicate a very strong growth in revenues from about € 33 m in 9M of last year to about € 51 m in revenues in 9M of this year. This represents an even accelerated growth of EVT Innovate in 2018 compared to prior years. The growth was driven, in particular, by solid base revenues from existing partnerships, the achievement of key milestones, as well as new partnerships. In line with EVT Innovate's accelerated growth of revenues, EBITDA, also very significantly improved to about € 6.6 m in profit, despite a very significant increase in R&D expenses. In the first nine months of 2018, we invested about € 24 m, which represents an increase of about 58% in R&D spending compared to last year. R&D spending has still been focused on iPSC-driven drug discovery, as well as new platforms and academic BRIDGES and it is only more recently that we have also expanded into infectious diseases.

Page 16 gives you a very brief overview of some areas of progress. EVT Innovate continues to gain momentum on the basis of our iPSC drug discovery platform as iPSC-based alliances continue to deliver milestones, which significantly contribute to revenues and EBITDA. In total, three milestones were delivered based on our iPSC-based drug discovery alliances, in particular the Celgene alliance in neurodegeneration, but also the Sanofi alliance in diabetes. We also continue to expand our academic BRIDGE strategy and expanded our EVT Innovate portfolio in infectious diseases. We built new partnership in oncology and targeted protein degradation and we continue to invest into further financings to Forge Therapeutics, FSHD Unlimited and Topas Therapeutics.

In addition to growing EVT Innovate revenues, we continue to advance and expand our partnered product portfolio. As you can see on page 17, we have significantly grown our partnered product pipeline to currently over 100 co-owned product opportunities. Many projects are advancing in their development and quite a few have reached important development milestones in 2018, and finally a number of new alliances have been added as well. The very significant expansion of this co-owned product pipeline has been driven through our infectious disease partnership with Sanofi but also



through three new EVT Innovate partnerships, one with Ammirall, and two new partnerships with Celgene. The new Celgene partnerships are alliances that are discussed in a bit more detail on the next page. As you know, our iPSC-based partnership with Celgene in neurodegeneration is going very well and has made excellent progress since its start in 2016. Just before the summer, we signed a new deal with Celgene that is focused on developing novel therapies in the field of oncology and in particular solid tumours. In this oncology-focused partnership with Celgene, we are leveraging Evotec's leading phenotypic screening platforms, as well as unique compound libraries and target deconvolution capabilities. This particular collaboration triggered an upfront payment of \$ 65 m, with a potential very significant milestones and royalties for each licensed programme. Just before the end of Q3, we signed our third partnership with Celgene in the field of targeted protein degradation, which is probably one of the hottest new fields in the pharmaceutical industry, as it has huge potential in many disease areas. It not only allows to target highly validated drug target through a new mechanism, but it also allows targeting new previous essentially 'undruggable' targets via small molecules. Celgene is the undisputed leader in this field, see the excellent work they have done in elucidating the mechanism of action of the thalidomide analogues, which ultimately have become multi-billion dollar drugs. In this collaboration, Evotec is leveraging our proprietary Panomics and PanHunter platforms, which are industrial platforms that systematically use and analyse 'omics' technologies and data. For this deal, financial details were not disclosed but it is fair to say that this deal carries a similar financial upside for Evotec as the other Celgene collaborations. We are extremely proud that Celgene has chosen to work with us on oncology as well as targeted protein degradation. In both areas, Celgene is a world-wide recognised leader being no. 2 in oncology by revenues right after Roche, and clearly no. 1 in the field of targeted protein degradation.

As I mentioned earlier, we continue to invest into building our pipeline into platforms with game-changing potential. On page 19, I would like to briefly point out four areas, which are of particular interest to Evotec and where we plan significant investments going forward. First and foremost, we will continue to expand our iPSC-based drug discovery platforms. An example of this is a deal that we signed in August with Centogene, a world-leading company diagnosing patients with rare genetic disorders. Centogene has a large database with patient documentation, including sequencing data, but also access to patient-derived biomarkers and tissue samples, which can be used for the generation of iPSC lines. This is a very broad collaboration in rare genetic diseases, which will significantly expand our growing collection of patient-derived iPSC cell lines which are clearly linked to human disease. Beyond the iPSC platform, we continue to invest into our Panomics platform. Here we systematically use high-throughput transcriptomics and proteomics as well as single cell sequencing to generate molecular phenotypes of diseases. Thereby, we intend to redefine disease according to molecular mechanisms, rather than symptoms. Furthermore, we continue to invest in incorporating artificial intelligence tools into the drug discovery process to accelerate the chemical design and synthesis of compounds, but also to enable patient stratification based on patient-derived 'omics' data. Finally targeting protein homeostasis is one of the most exciting new areas of drug discovery, as disease manifests itself in changes in the proteome. These changes can be addressed via targeted protein degradation, an approach that we are pursuing together with Celgene, but also via targeting turn-overs cell surface proteins, as we are doing currently together with Ammirall in dermatology.

Before I end, I would like to use this opportunity to also give a brief update on our academic BRIDGE strategy on page 20. 2018 has been a great year for our academic BRIDGE strategy, as we have been able to add two new BRIDGEs already. In the first half of 2018, we added LAB591 with the Fred Hutchinson Cancer Center in Seattle and more recently, we added a LAB031, which is a Euro-focused BRIDGE between Sanofi and Evotec that covers multiple areas.

So in summary, EVT Innovate had a fantastic year so far, with very significant growth in revenues and profitability, we have made significant progress in our clinical stage pipeline with the first molecules moving into Phase II of clinical developments; we expanded our partnered product pipeline to now over 100 partner projects; we added two new BRIDGEs and made great progress on our R&D projects and platform building, in terms of new EVT Innovate partnerships we have already signed three very significant partnerships with companies that are world-leaders in their respective fields. Overall a fantastic year for EVT Innovate already and hopefully more to come. With this, I would like to thank you for your attention and I hand over to Enno.

Enno Spillner

Thank you and a warm welcome also from my side to everybody on the call today. We have the great pleasure of introducing really exciting numbers of 9M 2018 to you today, and let's start on slide 23. Overall, we have seen again a very strong quarter contributing positively to the group performance of Evotec in 2018 year-to-date, and especially with regard to revenues and EBITDA we are even above our very positive Q2 numbers, also thanks to strong milestone achievements in the reporting quarter. Evotec's Group revenues for the first nine months of 2018 grew to € 270 m, which indicates a significant increase of 57% or almost € 100 m compared to the same period of the previous year. I come back to the analysis of the revenues and the gross margin on one of my following slides. R&D expenses for the first nine months of 2018 increased by 67% to € 21 m, mainly due to the added R&D cost for infectious disease efforts to the acquisition of the Evotec ID (Lyon) activities. It is important to bear in mind that the additional ID-related R&D expenses in this case are in return covered under other operating income in the context of the new agreement with Sanofi. SG&A expenses year-to-date 2018 increased as expected by 39% to € 41 m, mainly due to the additional expenses of Aptuit now for the full three quarters, as Mario already indicated, since Q3 we have also added Evotec ID (Lyon) and we have an increased headcount in response to the overall Company growth as well as some M&A-related expenses. Let me comment on the income from bargain purchase in Q3 2018 of € 15.4 m, as a special event, which was recorded in context of the acquisition of Evotec ID (Lyon), as the purchase price was below the net assets received. This one-time effect in 2018 was not allocated to the segments and does not impact the adjusted EBITDA but the operating income and net income only. The purchase price allocation is still preliminary and under further review.

The other operating income shows quite a step-up and consists of three major positions that I would like to mention. We keep recording an increase in R&D tax credits, resulting mainly from R&D tax credits in Toulouse, in UK, from Aptuit Italy and now since Q3 of this year, also from Lyon. We have cost coverage by Sanofi by respective R&D expenditures in the context of our Evotec ID (Lyon) activities, which kicked in now in Q3 and for the first time and we have the relief of an earn-out accrual of € 2.3 m in the context of our EVT770 impairment, as already described and discussed in Q2. Consequently, our adjusted Group EBITDA in the first nine months of 2018 increased significantly by 77% to € 69 m, the net result in the first nine months of 2018 increased to € 52.3m, obviously also recording the one-off effect of € 15.4 m from the bargain purchase. Two other key financials that are not on the slide that I would like to mention: Liquidity amounted to € 168 m at the end of Q3 2018 and remained very strong despite the repayment of 50% of € 70 m of the Aptuit acquisition loan in the first nine months of 2018, and we also try to continue these repayments of our bridge loan from our operational cash inflow. The balance sheet total increased to € 770 m, which is a step-up of more than € 100 m compared to the year-end 2017.

With regard to the segments, I will keep it very brief, also because most of the points are being touched in the consolidated view anyhow. Just on EVT Execute, two main effects driving revenues increased to € 254 m, which is 53% above last year, namely again full nine months' contribution by Aptuit and strong growth base business. In the EVT Innovate field, revenue year-to-date amounted to € 51.3 m, which is 5% above last year. Our Celgene neurodegeneration and oncology collaborations contributed very favourably here, base revenues have improved significantly and also milestones contributed strongly. The adjusted EBITDA amounted to € 6.6 m and increased strongly versus last year's minus € 2.5 m as the EVT Innovate result.

On slide 25, looking at the individual Q3 quarter, as mentioned before, Q3 2018 delivered a very strong financial performance, Group revenues increased by 43% to € 96.3 m, following growth in base business and a full quarter of Aptuit contribution; please keep in mind last year we started in August, so in the middle of that quarter, with Aptuit and strong milestones is the important point. The significant milestone achievements also reflect the strong gross margin for Q3 2018 of 34.7%, the Q3 2018 gross margin, excluding total amortisation even amounted to 37.7%. The more than doubling of R&D expenditures is mainly but not only driven by the addition of the Evotec ID (Lyon) ID activities, and SG&A of this quarter is well in line with the last three quarters, all being in a similar range as mentioned in the quarters before already. Other operating income shows a significant upswing in particular in this quarter, due to two major positive effects, mentioned before, increase of R&D tax



credits, now including Lyon, and reimbursement of R&D expenditures in the context of our Evotec ID (Lyon) R&D efforts.

Slide 26, like for Q3, Evotec's Group revenues increase is due to a strong performance in the base business as well as increased milestone achievements in existing alliances and the Aptuit contribution. The total revenue from milestones, upfront and licenses for the first nine months of 2018 amounted to € 27.2 m and increased by 29% over the same period of the previous year. The gross margin was at 31%, as already indicated in the previous quarter, this is reflecting the new business mix with a different margin expectations spoiling the acquisition of Aptuit. Also I keep reminding of the high amortisation of intangible assets as a special effect within the costs of revenue, due to the amortisation of Cyprotex and Aptuit. This amortisation totals year-to-date € 9 m, the gross margin excluding total amortisation of acquisitions for the full year would be 34.3%. FX was a challenge in particular in the first two quarters and improved quite a bit in the second half of the year, so far, we can see these quarters and half of the fourth quarter. The before mentioned high milestone achievements obviously also contributing very positively to the margin.

Guidance on page 27, the guidance can be well confirmed, and we are well on track to achieve all of our set goals for 2018, milestones are not guaranteed every quarter and can be volatile, as mentioned in the quarterly reports before as well. We are currently preparing our budget 2019 and it is yet too early to give a detailed guidance, which we will then publish in context of our annual financial statement in March 2019. Nonetheless, basics look quite healthy and continue to explain the solid order book, therefore we are looking optimistically forward into 2019. Having said that, I hand over back to Werner. Thank you very much.

Werner Lanthaler

Thank you very much. With this I would like to close the short overview of the state of the Company and invite you all to questions, and at the same time let me tell you and guide you to page 28, which says "Stay tuned." So in any case stay tuned for a strong underlying business, which we are preparing for 2019, 20, 21, and 22 with Action Plan 2022. Thank you so much.

Falko Friedrichs (Deutsche Bank)

Thanks for taking my questions and congrats on a great quarter, and once again my first question: Can you provide a bit more colour on this significant upswing in the EVT Execute segment in Q3? Was this a bit of a catch-up effect from a slower Q2 and therefore rather a temporary upswing or are there some structural elements in here that could potentially accelerate growth going forward as well? My second question: Could you potentially share the amount of upfront payments from your recent deals that you were now able to record in Q3? The third question: On the Panomics and the Protein Homeostasis areas, can that potentially also be partnered with Pharma or biotech companies going forward in a similar fashion to what you do with your iPSC platform?

Werner Lanthaler

Thank you, on your second question, I have to disappoint you, we will not disclose any additional numbers to what has been disclosed in the past. On your first question, on the underlying dynamics of the base business I hand over to Mario to illustrate the on-going operations, and your third question I hand over to Cord.

Mario Polywka

Yes, thank you for the question. As we went into 2018, we had a budget that saw a steady increase throughout the year as we closed out on more deals, so that effected in Q3, when more deals were



being closed of a larger more strategic nature, and also the performance of Aptuit improved as we went – both from a top-line perspective and delivery perspective – as the integration took effect, but also from a profitability basis as well. So that would explain Q3 and we anticipate that this continues into the end of the year and beyond.

Cord Dohrmann

Regarding the Panomics and Protein Homeostasis platform for partnering: The Panomics platform is really a very broad platform that is trying to integrate not just genomics data but also transcriptomics and proteomics data together with available patient data and pre-clinical data. And this is a platform that is really aiming to redefine health and disease via molecular phenotypes which can be applied essentially in any disease area, so very broadly across all areas where we are currently active. And in that regard we would expect that this platform will enable us to do further deals here, based on this platform going forward in a bunch of additional areas. The same is essentially true for Protein Homeostasis, which is also an area of increasing interest in the pharmaceutical industry and which goes essentially hand in hand also with Panomics, because here we are looking essentially at how the Proteome changes in certain cell types that are effected by disease and how to correct this, and here in particular, as I mentioned earlier, targeted protein degradation is one of the key ways how to address this potentially, and as we are here working together with one of the undisputed leaders in the field, we feel that we are currently expanding our expertise in this area and building knowledge strictly and will also try to apply this in other areas beyond what we are doing with Celgene.

Werner Lanthaler

It is really like building an autobahn with this platforms, there are four lanes on this autobahn that we are building, to basically make drug discovery and drug development easily accessible and more efficient than any other place can do this. And as you know, the Germans are very good in making autobahns. Next question, please.

Samir Devani (RX Securities)

Thank you and congrats on that very strong quarter. I have a few questions. The first perhaps just on the technology platforms, I think in your slide Craig you mentioned that you are using AI or are trying to incorporate AI at Evotec, and I was just wondering if you perhaps could elaborate on how you are doing that? And perhaps at the same time you could spend a few moments explaining the Panomics platform to give us a better understanding of how that works. And my final question is for Enno if you could help us reconcile the net income to cash flow from operating activities? I appreciate that you probably booked the € 60 m upfront from Sanofi during Q3 but if you could explain things like there is a significant change in deferred revenues in the quarter? Thanks.

Werner Lanthaler

Question 1 on AI, we will probably have to be brief here to not overdo this call, but it goes to two persons on this call, there is Craig implementing that and Cord implementing that in many different processes throughout the Company. Maybe Craig first and then back to Cord.

Craig Johnstone

Sure. As I am sure you know we embarked on a collaboration with Exscientia in 2016, where we wanted to explore the application of AI particularly in molecular design. That went very well, we were pleased with the results, it is an on-going collaboration today, but as you will appreciate there are many other problems in drug discovery and development where AI could be targeted to give rise to an

even more enhanced solution to some of our problems associated with predictive power and larger amounts of detail. These two things combined in the AI world to give rise to very good solutions. So we are within the process of investing in AI in molecular design and synthetic route planning, and then of course in areas where the amount of data is exploding, and we need AI machine learning tools to manage and process that high volume metric data, and maybe that is the best link. Back to Cord.

Cord Dohrmann

So essentially the AI and machine learning tools can be applied really in almost all segments of the drug discovery process, and we are doing now very effectively in early molecular design of compounds, we are applying it in terms of the development of synthesis pass for novel compounds that we have designed, we are applying it to now early 'omics' data that is coming out of the more systematic approaches using 'omics' platforms in describing health and disease, describing new molecular phenotypes, describing the activity of compounds in a very complex fashion. But let me back up maybe on Panomics, because that is an important point. So Panomics essentially is just a catch word for going across 'omics' technologies – *Pan omics* – and that captures genomics data, that captures transcriptomics data and that captures proteomics data, and what is new about this is trying to apply these technologies in a very systematic fashion very early on in the drug discovery process. And these technologies can then be used, or they define in a very comprehensive manner phenotypes but also biological activities of compounds. And in order to interpret these very complex data sets, it is important to also integrate artificial intelligence tools and machine learning tools and computer assisted, all in order to manage these data sets, interpret them and derive conclusions.

Werner Lanthaler

Back to financials after this short AI experience and Enno with the third question, please.

Enno Spillner

Okay, I will try to give you the major facts building the bridge between net income and cash flow; that is the way I understood your question. So we have obviously from the last quarters major impacts from the Celgene upfront of \$ 65 m that we received, and from Sanofi receiving € 60 m upfront from the Lyon ID efforts. So these were the two major cash inflows that we had that were not immediately on our P&L obviously, most of it went into deferred income, if it comes to Celgene, this is also something that you can observe in our balance sheet, having a relatively high deferred income on the short-end of € 69 m on the long period of € 52 m in total. The Sanofi upfront is obviously split down quite a few positions, and is also to be found in our balance sheet, as we took over quite a few obligations with the employees taking over in the context of the Sanofi entity in Lyon, like pension obligation, etc. So this is also positioned in our balance sheet, and then we have amortisation of € 9 m, as I mentioned before, in our costs of revenue, which are in context of Cyprotex and Aptuit amortisation, and the last position, which goes in the other direction, is € 15.4 m bargain purchase income which is recognised in the P&L, but obviously not having a cash impact. And these are the major positions that are influencing net income in cash.

Werner Lanthaler

Let me just stress on this point that it was possible to pay back a significant part of our acquisition loans through operations, and that just shows you the confidence that we have at this stage on the business that is building up here. Next question, please.



Igor Kim (BHF)

Yes, hello, congratulations on your good results. I have a couple of questions, the first on the 2018 outlook with I would say very strong results in the first nine months. Don't you think that the outlook for the whole year, the confirmation of this outlook, is kind of conservative or do you prefer to stay on the safe side with respect to the 4th quarter? 2nd question: I think Mario said that in Aptuit profitability was improved, was it driven by INDiGO projects or by other business lines within Aptuit? 3rd question: Can you give a breakdown in terms of milestone payments in terms of segments between EVT Execute and EVT Innovate segments? Thank you.

Werner Lanthaler

On the third question I have to immediately disappoint you, we do not break this up at this stage into more detail than we have given you. On question 1, let me be specific here, we want to continue to share with you and synchronize with you that this is a milestone-driven business and will continue to be a volatile milestone-driven business. So when we say larger than 30%, you see that this is significantly larger than 30% at this stage, when we say larger than 30% on EBITDA, this is significantly larger than 30% in EBITDA. And that should just reflect to you that it is not about 1% up or down in guiding you here, it is about the long-term trend that we share with you and the long-term outlook of this business, and therefore we thought it is just not appropriate to change our guidance, if this goes up or down by a few percentages, it is about understanding the long-term trend. And with this we did not want to create a short term excitement or whatever, raising something above something, it is really following us in the long run and understanding our business in the long run. That is how we have built this business over the last 10 years, that is how we will continue to build this business over the next 10 years, and this has nothing to do with being conservative, this has something to do with synchronizing your thinking and our investor thinking with our thinking. When it comes back to Q2, I hand to Mario.

Mario Polywka

Thank you. The contribution from the various business lines within Aptuit, which of course are the clinical development, pharmaceutical development and drug discovery, they all improved over Q3, this is driven by new INDiGOS, as we stated in the communication, a strong performance from stand-alone business such as API manufacture and formulation, and then also within Aptuit, although it is an Evotec business line, the drug discovery business is also now seeing an upside. A lot of this is due to the cross-selling synergies that we have been able to realize as well as a better commercial reach within Evotec.

Victoria English (MedNous)

Yes, good afternoon. I have a question about the induced pluripotent stem cells. In the last few quarters you have reported new initiatives on this front with patient-derived cell lines and I am wondering at this stage whether you could tell us what the next stage is in the use and application of this asset?

Cord Dohrmann

Thank you, once again iPSC-based drug discovery is an area that is of really great excitement to us and we continue to believe that this will make a big difference in the future. We have made tremendous progress on this platform over the last few years, and ultimately one of the longer term goals continues to be able to set up something like a clinical trial in a dish, so really being able to stratify patient populations, a new based iPSC lines derived from various different patients in the same disease area and then being able to interrogate compounds directly on these lines to see on what



patients they are effective or not effective. In order to be able to do something like that you have to build on the library of iPSC patient-derived cell lines. And as you have seen, the Centogene deal that I mentioned is essentially another way of accessing patient-derived cell lines in many other disease areas but also just continue to build in certain disease areas where we are already active. So that is one component that we feel that we are closer and closer in moving to a key goal like being able to conduct a clinical trial in a dish. We are constantly adding cell lines that we are able to derive from induced pluripotent stem cells and thereby expanding our reach into new disease areas. The third component is that from essentially single cell type experiments we're moving into more complex assay systems such as co-culturing systems, that we are preparing in various settings but even organoid-like structures that they are pursuing in the context of kidney disease where we are building glomeruli and also kidney tools on a dish, essentially. So we are very excited about all of these areas, we believe this will continue to be an area of growth for Evotec going forward and that we will be able to expand this venture significantly going forward.

Werner Lanthaler

We want to be very conservative here because we have established something where using the term world leadership is something that we do not want to do too often. But on this front of drug discovery and drug development on the basis of induced pluripotent stem cells we are using the term world leadership.

Michael Higgins (Ladenburg Thalmann)

Thank you. First a couple of questions on the Celgene alliance. You have twice added cell lines to the iPSC neurodegeneration agreement, can we assume that each time corresponds to new indications added to the collaboration and also how many indications are actively being researched as part of this alliance?

Werner Lanthaler

Question 1 is a clear yes, question 2 we are not allowed to disclose, but it is getting more.

Michael Higgins (Ladenburg Thalmann)

You also mentioned further expansion of the iPSC platform. Are you referring to internal expansion of your platform technologies, if so, what is that organically? You have noted in the past that you have strategic collaborations with Fraunhofer, Censo, Ncardia and ID Pharma, I am just trying to understand better what is meant by further expansion of iPSC platform? Thanks.

Werner Lanthaler

So what we are doing on this platform: We are building together every piece of the puzzle that it takes to make the most robust assays in the disease areas where iPSCs can be used in a very effective way. This requires access to patient-derived material, this requires access to technologies and this ultimately requires biology know-how in being able to translate what you are gathering on the platform ultimately into clinical hypotheses. And we have started with diabetes and we have started with neurodegeneration as two obvious fields, and nothing at this stage should hold us back from expanding this way beyond these two fields into more than ten fields that we see where this can be applied. And this is how you should look at it at this stage, that we have basically started here, and it is not measured by how many partnerships do we enter in what quarter, it is really building this for a long-term drug discovery effort, which can be executed on our own at this stage. And that is why we

love to invest in EVT Innovate, because we are not dependent on external partnerships at this stage to drive this at full speed. We can drive this at full at this stage on our own investment.

Michael Higgins (Ladenburg Thalmann)

If I could add one more question it would be helpful, a couple questions on your clinical assays with Bayer. I want to understand if the timing continued to be on track? You are looking for a third Phase I in endometriosis that is concluding at year end, starting a Phase II in endometriosis in 2019, any further clarity when that might be as well as chronic cough project in 2019?

Werner Lanthaler

Here it is important that the principle of our co-owned pipeline is that we don't control exact timing of clinical trials where they move into which stage going forward. All we can confirm on Bayer is that this highest priority, that we are in very close contact and very optimistic that our P2X3 project and the follow-up projects in chronic cough and endometriosis go as planned into multiple indications.

Volker Braun (Bankhaus Lampe)

First question would be on organic growth, you mentioned the contribution from Aptuit of € 83.6 m, how much of that was generated by mid-August, which was inorganic and from there onward what would be organic? And was there already a contribution generated by Evotec ID (Lyon) from France? And staying there 2nd question is about Lyon: What have you found that is your own? Did it meet expectations? Has it triggered reprioritization of projects or is it the same that you anticipated? Is it similar to Toulouse, what are the differences? And lastly given the strong growth in alliances and projects, a question about capacity, how would you describe the utilization at this stage? Are you running on full steam, does it require further expansion and how would that be managed?

Werner Lanthaler

On organic versus inorganic growth on Aptuit, I would invite you to have a separate call to figure that out with Enno, too long for this call. And on the whole infectious disease effort – we should think about this as a long-term effort and also here we have started 3.5 months ago to enter into the process of prioritizing the best pipeline assets that we found out of the pipeline that was handed over. We are at this stage balancing this with what we can do out of academic collaborations, out of other collaborations to ultimately build a long-term high-value portfolio, so it is not that we just look at what we got, it is really how do we long-term best optimize from a medical needs perspective, from a capability perspective and also from a strategic perspective, how to build this bet. It is not done yet, an on-going process, but we have a very open culture to discuss, prioritize and reprioritize and with this it is just important that we were cautious enough and gave ourselves and our partnership with Sanofi a five-year time horizon. And that is why it is too early to call it success or not, it just needs time, and the good news is that we have a lot of support for this timeline also in financial terms from Sanofi to do this. You find at this stage no contributions on the top-line from our infectious disease efforts in Lyon that are of relevance, of course it added cost, that is why we have also increased our investments in R&D on that basis, but cost is covered by Sanofi, that is how you have to look at this.

Volker Braun (Bankhaus Lampe)

From an accounting perspective there won't be any revenues attached to that for the foreseeable future? It is a washed amount operating income and costs?



Enno Spillner

There will be some accretive position, but it is not really significant, that is why we are not pointing it out now.

Werner Lanthaler

You see increased operating income and that is then covered. And coming to capacity utilization, you have to look at Evotec at this stage with more than 10 sites globally where you have different capacity utilization at different sites but the good news is that of course the more business we add, the better the fixed costs are versus variable cost utilization. That is reflected in our gross margins, if you look at it at this stage, we are especially happy that Toulouse situation is coming to a very good gross margin contribution where here the underlying assumption was for a 5-year plan that we started 3.5 years ago, you see when you look at our website that we are hiring at all sites highly qualified talent into the company, and capacity at this stage is a quality situation for us that we want to build, it is not a quantity situation for us. And never forget, for us the quality of growth determines our long-term business plan, it is not that we just chase growth for growth's sake.

Volker Braun (Bankhaus Lampe)

And is there a level of gross margin which would indicate that you are entering a territory where you have to add brick and mortar and capacity here?

Werner Lanthaler

Some details: We are currently in the process of building together with Göttingen a completely new building to add capacity on that side, we are expanding in Oxford, we are expanding in Verona, we are expanding in Toulouse – so it is in all sites that we are adding intellectual capacity and also bricks and buildings, but that is really what comes with growth and I wanted to emphasize that it is about quality growth. How do we operationally control quality growth? That not any business, e.g., that has a long-term lower contribution than 25% gross margin is to be considered at this stage as a long-term variable business here. We sometimes do this, but that is the absolute exception, and that is how we want to control that we take on strategic business and not business just to fill the shop.

Volker Braun (Bankhaus Lampe)

Is there enough talent around you can hire?

Werner Lanthaler

We are happy that people who are with us we try to retain, because retention is what our partner value extremely high in a competitive environment when many of our more Asian competitors in certain disease areas or in certain performance areas we are active in have retention levels that do not make this a viable outsourcing relationship any more. So I think that is something that speaks a lot for us, and the second thing: We are a high quality team, attract high quality talent, especially from top academic places but also out of very drug discovery experience, other companies that join us. That is why the blend of long-term Pharma experience together with young academic talent makes Evotec such a vibrant and highly productive place.

If there are no further question, let me state that it is our big honour to report back to our shareholders our progress, we want to synchronize with you as investors, with people who follow us to support us and bring our business forward. It is important to discuss what we are doing to learn and



to make this company better every day, that is our mission and that is how you should see us. Let me finalize by saying one more time, thank you Mario, because it was a pleasure and is a pleasure to work with you, also in the future. Thank you to all of you.