Evotec SE
Transcript of the Conference Call
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Operator

Ladies and gentlemen, welcome to the Evotec SE conference call regarding the presentation of the H1 results 2019. This conference will be recorded. All participants will be in a listen only mode. After the presentation there will be an opportunity to ask questions. May I now hand you over to Werner, who will lead you through this conference. Please go ahead.

Werner Lanthaler

Welcome, this is Werner speaking from Evotec. Welcome to our H1 presentation, which we called Expand and Accelerate. We have uploaded a presentation, which we invite you to follow for this conference call. Page 2, you see that I am here together with my team, Enno Spillner our CFO, Craig Johnstone our COO and Cord Dohrmann, our CSO. We all together represent the approximately 3000 highly qualified and motivated employees of Evotec. On page 4 of this presentation, you can see that it is a strong year; maybe it is safe to say a very strong year, because we can and will expand and accelerate, because we know exactly and follow our defined goals. Our market opportunity to become the leading external innovation partner is growing every day. It is important to emphasize here, that we together with our recent acquisition, called 'Just Biotherapeutics' are expanding and strengthening our leadership here in multi-modality that we bring to drug discovery and drug development. This makes Evotec truly strategic in all modalities in the drug discovery and development world. If you look at page 4, you see the list of highlights is long and my colleagues will touch upon most of the points throughout the presentation. It is a pleasure to be able to announce already today that this list will be longer when you see our full results by the end of the year. If you go to page 5 of our presentation you can see that our financial performance is strong, very strong. So with great pleasure we can increase our already highly aspirational goals today, as we have a very strong base business on-going, very strong underlying macrotrends, which we can already foresee into the year 2021 and when we have very visibility on our order books and adding to this the acquisition of Just Bio is supporting our increased guidance.

When you go to page 6 of this presentation you see that our action plan 2022 is in full swing. Leading external innovation is the goal and has always been the goal. So with this it is absolutely fair to say that it is just the beginning of our strategy to really lead new drugs into the market in this industry together with our partners. When it comes to drugs into the market on page 7, let me point you to one of the core elements of our strategy, which is building a co-owned pipeline together with our partners. Building this co-owned pipeline is essential because it brings together the best of R&D and it brings together the best of our partners together with Evotec. This co-owned pipeline will gain more visibility going forward and we are very happy to report that in the first half of 2019 some highlights have been achieved and can be shared with you throughout this presentation, as for example our P2X3 data point together with Bayer. Let me summarize the introduction by saying it is the beginning of Evotec where our strategy in multi-modality is going strong forward and has shown a very strong

H1. To illustrate that, let me hand over to Enno, who will give you our financial performance of the first half.

Enno Spillner

Thank you Werner and a warm welcome also from my end here in Hamburg, introducing once again very exciting and very positive financials looking back on Q2 and the first half of 2019. Let me start on slide 9, where we again are looking at a quarter with significant growth. It is important to mention that this growth was based on a solid and a very broad performance across the organization, and all sectors that currently perform very well. I will come back to revenues and the margins on the next slide. With regard to R&D we focused our unpartnered R&D expenses of roughly € 18.7 m primarily on internal initiatives in the fields of metabolic diseases, oncology and neurology, as well as academic BRIDGE initiatives and in addition our partnered R&D expenses of roughly € 10.6 m focused on our infectious disease portfolio and were fully reimbursed under other operating income by our partner Sanofi. This split into unpartnered and partnered R&D expenses had not been applied in the first half of 2018 yet, where total R&D expenses of € 10 m were recorded. So this notable increase shows clearly our very strong commitment into R & D and innovation and long-term value creation here at Evotec. The gross SG&A expenses increased sub proportionately by 10%, and this increase primarily reflects expenses of Evotec ID Lyon for the first sixth months, which is then new for this first half year, as well as an increase in headcount in response to our overall growth, plus obviously transaction related expenses, such as the just M&A, which Werner just mentioned, and the promissory note. Evotec's other operating income increased to € 31.3 m in the first half, being positively impacted by reimbursed approximately € 20 m R&D expenses from Sanofi, which we did not yet have in H1 2018 and also above € 12 m in R&D tax credits. The significant increase in our adjusted group EBITDA in the first half of 2019 to € 58 m resulted mainly from the very strong performance in the base business, considerably high milestone and license contributions plus effects from the first-time application of new accounting standard IFRS 16. Altogether yielding a strong adjusted EBITDA margin of roughly 28%.

On page 10 we come back to the revenues and the gross margin for a moment. In the first half of 2019, Evotec's group revenues significantly increased by 16% to € 207 m, and this increase was primarily driven by the strong performance in the base business, and again across all business lines as well as higher milestone and license revenues that we could also recognize. And we had some favorable support FX effects. Revenues from milestones, up-fronts and license significantly increased to € 19 m in comparison to the first half of 2018 where we stood at € 15.8 m. And we included amongst other payments from Bayer, from Boehringer, from Celgene and other players. Please also note that the positive impact on revenues is also positively impacted from IFRS 15 accounting rules. The gross margin in the first half of 2019 amounted to 30.8%, and this increase in margin compared to 2018 again reflects significant milestone and license contributions as just described and good margins in the base business. FX contributed positively with 1.5% to the margin and also please remember that on the burden side, if you will, we continued to have the impact by the linear amortization of our past acquisitions, and also here IFRS 15 strains our margin by approximately 1.1%. On slide 11, looking at Q2, there is actually not too much to say in addition about Q2 in particular, since the basic arguments are exactly the same as they apply for the half-year numbers as I just introduced to you. Only to mention that in Q2, impairments of intangible assets and goodwill of in total € 11.9 m were recorded. This was in the Innovate segment and in the context of the SGM 1019 program, which was fully impaired as the project was discontinued by our partner Second Genome in the clinic. However, please bear in mind that this impairment does not affect the adjusted EBITDA.

On page 12, looking at the segments, the EVT Execute segment continued its strong progress of previous quarters in the first half of 2019, Evotec signed multiple new and extended existing drug discovery and development agreements and recorded milestone achievements as just described in the first half of 2019, contributing to the overall strong performance of this segment and in addition, efficiency and quality improvement activities continued to be undertaken, making sure that we stay lean and focused on core operations. EVT Innovate again recorded the acceleration of its first class trends across various ventures in the first half of 2019, existing co-owned clinical, pre-clinical and discovery pipeline projects generated a significant revenue increase compared to the first half of 2018, again including significant amounts of achieved milestone and license payments, at the same time Innovate as the second continues to deliver a strong base margin based on the current existing collaborations. In total this also means that the first half of 2019 sees strong delivery from both segments with regards to milestones and license payments. On slide 13, let me once again introduce to you our very successful and significantly over-subscribed debut promissory note, or "Schuldschein" as it is called, raising gross proceeds of € 250 mat very attractive interest rates of clearly below 1.5% on average, and also very reasonable transaction costs. This "Schuldschein" is a non-dilutive tool, recorded as unsecured senior debts, and besides pay-back staggered over three to ten years, and servicing the interest rate, obviously, there are no further obligations, success-related payments or any other significant covenant requirements that need to be observed or that are attached to the deal. Triggering such financing reflects our intent to better leverage our strong balance sheet by utilizing the debt side a little more, which we have not done in the past so far. However, we remain conservative and can report a very moderate net debt leverage of only 0.8 and despite our equity ratio reducing, we remain in an attractive area when reporting about 41% equity ratio at this point in time. On page 14, looking at our liquidity position, Evotec ended the first half of 2019 with a very strong liquidity position of roughly € 342 m, which was mainly composed of cash and cash equivalents, and also some investments. In the first half of 2019, liquidity was primarily effected by the completion of the early repayment of the € 140 m debt bridge facility in the context of our Aptuit acquisition, the successful issue of the company's debut promissory note as just described, as well as new bank loan agreements and the drawdown of another tranche of the EIB R&D loan, which you already know from previous quarterly reports. Proceeds from the "Schuldschein" also allowed us to reduce current exposure and other short-term and floating loan facilities, which show slightly less attractive terms than the "Schuldschein" itself, and thus we can keep these other tools on standby, just in case they are giving us a lot of additional flexibility for financing. And with having said that I am at the end of the financial part of this presentation for now. Thank you all for listening and I hand over to Craig Johnstone.

Craig Johnstone

Thank you Enno and good afternoon to everyone on the call today. Together, Cord and I will update you on the key aspects of the scientific and operational performance in the first half. On page 16 we report a very brief summary of the key events in the past few months and are pleased to report a healthy combination of new partnerships, good scientific progress within existing partnerships, both in discovery and development activities, and indeed across a diverse spectrum of target sites, biological mechanisms and disease indications, such as exemplified by Astex, Dermira, Enterprise and Storm. In some cases, scientific achievements have also attracted success payments along the way. As indicated by Enno, this consistent and high quality execution of projects on behalf of all of their partners contributes to a strong financial performance and robust gross margin of 27.7% in the EVT Execute segment. As

previously reported, and as shown on page 17, we were delighted to complete the acquisition of Just Biotherapeutics in early July, formerly after the period end. The combination of leading technology, brilliant and experienced staff and a compelling vision for bringing biologics projects most successfully and cost-effectively to the market makes this acquisition a perfect philosophical technical fit for us at Evotec. This is achieved through the integration of advanced computing and machine learning, our prediction of macro-molecular properties, followed by rapid experimental verification and then subsequent control of production quality as well as speed in a highly flexible production manner. And we are very excited by the future prospects and potential synergies that Just Bio brings us as Evotec Biologics. In particular, in addition to executing on partners' projects, such as the announced with Teva, Just Bio enables us to develop EVT Innovate projects in the biologics field, thus opening the opportunities for co-ownership across multiple modalities. We are actually evaluating the construction of the first J-Pod for commercial manufacturing in the United States during the course of 2019.

On the next slide, page 18, I would like to share with you the current status of our site in Toulouse. As you are aware, in 2015 Evotec embarked in a major multi-facetted strategic partnership with Sanofi, including taking over a major integrated drug discovery site in Toulouse in France with around 210 employees. Since then we have worked together to integrate the site into our ONE Evotec culture and we have steadily attracted and secured increasing amounts of business at what is a quite dramatically, approximately 70% growth of third-party work each year since 2016. Careful management of this growth we have grown steadily to meet the demand of this work such that today we delivered over € 45 m in revenue in the first half of 2019 from this site, and we have over 500 colleagues in Toulouse, and we anticipate further growth in recruitment and indeed in new partnerships in the next 12 months. We are therefore confident that the site is on a very robust trajectory to be economically sustainable beyond the end of the existing Sanofi subsidy, which amounts to approximately € 20 m reduction in top and bottom line anticipated in 2020. My final comment on page 19 is to acknowledge the diversity of our customers and partners, with whom we continue to enjoy a very high return rate at around 90%. In addition to our usual partner base, very strong in Europe and indeed the United States, it is not only that we are seeing an increase in business in the rest of the world, particularly as it is driven by an increase in work in Japan. And with that, at the end of what we feel is a very strong first half in the EVT Execute segment, I hand over to Cord for the next segment.

Cord Dohrmann

Thank you Craig and good afternoon to everybody on the call. Once again it is my pleasure to give you an update on the progress we have made with EVT Innovate. As you might remember, with EVT Innovate we focus on building high-value pharma and biotech partnerships with long-term financial upside. These partnerships are particularly designed to let Evotec participate in the successful development and eventual market entry of drug products for the achievement of development, of commercial milestones as well as ultimately royalties. EVT Innovate had an excellent start into 2019, we have made great progress on all fronts with a key goal to expand and accelerate our co-owned product pipeline. First of all, we signed a number of new EVT Innovate partnerships, which will bolster and expand our co-owned drug product pipeline. In addition we significantly expanded our activities in anti-infectives through a number of new alliances. Furthermore we expanded our iPSC based drug discovery platforms through the acquisitions of Ncardia AG in Cologne, and we also further expanded our academic BRIDGE and equity strategy. Last but definitely not least we were able to report very encouraging phase 2 results in chronic cough together with our partner Bayer. All of these achievements support the further expansion and development of our co-

owned product pipeline, which is shown on page 21. For the first half of 2019, we are able to report significant progress within a number of new and very exciting collaborations. First of all we started a risk reward share partnership with the Mark Foundation in Immune Oncology, through our partnership with Indivumed, which is a leading provider of premium bio-specimen we will access patient samples and data for the development of first-in-class colorectal cancer therapies. We also initiated a partnership with a global antibiotic research and development partnership, called GARDP in antimicrobial resistance. And finally we also signed a partnership with Helmholtz Center of Infectious Disease which is based on work in Prof. Rolf Müller's laboratory in Cystobactamids in the class of natural products have the potential to be developed into a novel class of broad-spectrum antibiotics. And finally we signed a collaboration agreement with Galapagos in fibrosis, which is based on one of our EVT Innovate projects. Just as important as the continued expansion of the pipeline is the progress of existing pipeline projects in the preclinical setting. Within the scope of our Celgene neuro-collaboration we announced the achievement of a very significant early development milestone of $ 9 m, and finally in our partnership with Bayer we achieved a very important clinical data point together with Bayer we announced positive Phase II clinical data in chronic cough.

As you can see on page 22, since 2012 Bayer and Evotec have been collaborating in the field of endometriosis in a multi-target drug discovery alliance, bringing forward a pipeline of potential first-in-class approaches. One project that Evotec brought into the collaboration has been focused on the development of P2X3 antagonists, with significant therapeutic value for the treatment of endometriosis but also potentially a number of additional indications. P2X3 has not only been implicated as a therapeutic target for the cells issues, such as endometriosis, but also respiratory diseases, including chronic cough, the central nervous system disorders, including Alzheimer's, but also inflammatory pain, ophthalmology and more. Bayer advanced our first P2X3 antagonist, which is called BAY1817080 into a combined Phase 1/2a study in refractory chronic cough in 2018. Bayer recently informed us that the drug candidate has met the study's primary endpoint, which is a significant reduction of the 24-hour cough relative to placebo. BAY1817080 was also found to be safe and well tolerated. Bayer initiated a second phase 2 trial with a further P2X3 candidate for the same indication in February 2019. Based on the promising Phase 2 data we are optimistic that Bayer will advance BAY1817080 into phase 3 clinical trials, which would trigger further milestone payments and ultimately royalties. On page 23 I would like to switch gears and give you an update on our continued efforts to redefine the drug discovery paradigm by focusing already in the preclinical setting on patient data, patient derived assays, highly comprehensive disease relevant read-outs, as well as artificial intelligence and machine learning tools to analyse and interpret highly complex data sets. We are continuously working on expanding access to primary patient data and here the Indivumed collaboration that I just mentioned, is another prime example of this. And we also continuously keep expanding our iPSC and panomics platforms as well as integrating artificial intelligence and machine learning tools into our processes. In the first half of 2019, we have added to each and every aspect of this platform and on page 24 I would like to briefly mention our most recent expansion of our iPSC based drug discovery platform. There have been two important expansions. In Q1 of 2019 we reached yet another iPSC drug discovery milestone in our Celgene neuro collaboration. This milestone of $ 9 m was due to the establishment of a microglia platform which allows us to generate human microglia at high throughput for screening purposes, as well as the initiation of a microglia based drug discovery screen. This is really great progress, as microglia are thought to be relevant in many CNS born diseases and will open the door for many more projects focused on microglia based mechanisms. More recently, we also acquired Ncardia AG in Cologne for further expansion of our iPSC based drug discovery platform. This acquisition

represents a significant expansion for various reasons. First of all they are growing our iPSC team by more than 17 stem-cell biology experts in the field, we are also adding a number of cell types to our portfolio, such as cardio myocytes, astrocytes and peripheral neurons, and we are expanding our offering into iPSC based drug discovery, drug safety and toxicology profiling. And finally we are also strengthening our IP position at the additional patent portfolio, which covers various aspects of iPSC based drug discovery. We are very excited about this opportunity to significantly broaden our iPSC based drug discovery platform and are looking forward to growing these together with our new colleagues in Cologne. Another important aspect of the EVT Innovate strategy are equity investments and spin-off companies which synergize with our platforms.

On page 25, I would like to introduce to you our most recent spin-out, which is called Breakpoint. Breakpoint is special in a number of ways, but most importantly it is a potential blueprint for future spin-out scenarios. Breakpoint is based on projects that have been initiated within an EVT Innovate R&D initiative in the field of DNA damage response. DNA damage response is a very attractive field for novel oncology drug targets as exemplified by the clinical and commercial success of PARP inhibitors. Breakpoint is now pursuing a pipeline of highly innovative and exciting drug discovery projects with first-in-class potential, and the goal of the spin-off is to accelerate these projects to deliver a first IND ready drug in 2022. The Series A-funding for Breakpoint amounted to € 30 m, which was covered by a small consortium of renowned international investors, in particular Medicxi and Taiho Ventures led this round, and were joined by Evotec. Evotec will hold just below 50% of Breakpoint and will conduct all preclinical discovery work in a highly capital efficient and asset-centric approach, and thus the company will be able to focus really on delivering differentiated treatment options for a variety of cancer patients. Finally I would like to mention that we continue to grow and expand our academic BRIDGE strategy with LAB10X we have recently built a digital health bridge together with Sensyne Health. Sensyne Health has unparalleled access to real world patient data from large, anonymized patient databases in collaboration with the NHS. These data are the ideal basis to develop digital therapeutic solutions that are driven by high-quality software programs to prevent, manage or treat human diseases. So in conclusion, EVT Innovate continues to expand and accelerate on its strategy and had a fantastic first half of 2019. We are looking forward to a very exciting second half of the year and with this I'd like to hand over to Werner.

Werner Lanthaler

Thank you very much. There are many pieces of a puzzle that come together and that make us strong for the first half of 2019 and let us very optimistically look forward to the remainder of the year. Based on the many elements that you have heard from our top-class execution, and our top-class innovation that we provide to our partners, we are able to update our guidance as you see outlined on page 28. We are now going to approximately 15% growth for the year, we are going above 10% on our EBITDA line, and we keep our unpartnered R&D expenses in the range between € 30-40 m. With this, let me thank our team and let me thank our employees and let me thank you for following Evotec. We are of course open to all questions.

Joseph Hedden (RX Securities)

Good afternoon, thanks for taking my questions and congrats on a strong quarter. Just on the acquisition of Just Bio, slide 17 is giving guidance for $ 30 m revenues for the full year 2019, that includes into the company revenues. I just wanted to confirm that these inter-company revenues are what you expect post your acquisition and can you guide to their level? And then staying with Just Bio, I was wondering what kind of gross margin you are expecting and also the capex investment over the next few years.

Werner Lanthaler

On Just Bio, the first thing to note is that we are in US $, so the 30 m is in US $ that we mentioned here, and from all that we have done so far, I think it is fair to say that the revenue recognition policy from Just Bio has to be adopted to what we are doing at Evotec, but it looks as if it is a very strong order book that we are taking over and we can of course confirm what we saw there in the books from the very beginning. From gross margins that we will apply in the business of Just Bio, you can assume that nothing will be below Evotec's gross margins, it will typically be higher than Evotec's gross margins, as you typically see that in the large molecule's stains, and from future CAPEX investments we are in the current facilities next out when it comes to the drug discovery and drug development work in Seattle. And we are evaluating expansion plans for not only the R&D work but also the manufacturing work for so-called J–PODs that we want to build in the future, which was also one of the key use of proceeds for the promissory note that we handed out. We will make a decision here in the coming months.

Falko Friedrich (Deutsche Bank)

Hello. I have three questions. Firstly on the Sanofi subsidies. Can you just confirm that you said its is € 20 m that is falling away on both sales and the bottom line, so it would be the same amount on both. And I would assume that is the full year or annualized amount, so the impact should be a bit less next year, because you still get this subsidy until April. Is that the correct way to look at it? And secondly, could you give a bit more colour on the oncology compound that is now in phase 2, just in terms of what it is targeting and how it differentiates in that phase? And then thirdly a bigger picture question on iPSC. So we have seen larger pharma companies increasing break into that space themselves via acquisition or even internal developments. So with the competition apparently increasing here I was wondering how you aim to differentiate in that space going forward. And I am also wondering how much differentiation potential lies in these platforms themselves? Or whether it is just about being the earliest and fastest player?

Werner Lanthaler

Thank you. I hand the third question to Cord, let me comment on questions 1 and 2, because question 2, I have to apologize that we are not in the position to comment on the differentiation of the compound of Carrick before asking our partner to do this in public, so please respect our policy on that, but we are happy to provide the context going forward. But I think it is in short a very exciting not only company but also individual compounds that are moving forward here. To your first question, it is a set of agreements that we have with Sanofi. There are many collaborations on-going with Sanofi on the EVT Execute level and on the EVT Innovate level, so therefore giving you a precise annualized number is hard, and we will at the end, when we see this going forward, because many of the collaborations with

Sanofi will continue also way beyond April of next year, so you are right, it is the € 20 m annualized approximate number that we expect as a subsidy to fall away. And as I said before, there are many collaborations on-going with Sanofi, way beyond April 2020. Does this answer your question? I now hand over to Cord.

Cord Dohrmann

In regards to the iPS cell technology and increasingly taking a foot hold in the industry, it is I would say slowly the iPSC technology starting to deliver on its promise on multiple fronts. It always has been a very compelling story in terms of being able to work on human cell types, and in many cases not only human cells but diseased cells that are directly derived from patients, is a superior tool compared to rodent cells or non-diseased cells for drug discovery purposes, not just for drug screening but also for safety, toxicology profiling and ultimately the potential of course for cell-based therapy. I think what has been in the past slightly underestimated are the technical difficulties to really drive the advancement of iPS cell technology in the drug discovery context, but here it is increasingly possible to not only differentiate iPS cells in disease relevant cell types, not only at a small scale but at a larger scale but also bring them into high-throughput screening scenarios and of course being able to produce certain cell types in a larger scale that also opens the door for potential cell therapy approaches. So we continuously feel that using iPS cell technology is essentially clearly superior to more traditional approaches in this space and I think what you recently see happening in the industry is that more and more people are catching on to this and I think as we said in the past, if a number of companies in certain areas are starting to work on human neurons or use human neurons for drug discovery purposes, then other companies who work in the same field simply cannot afford to continue to work on rodents, so they need to base the catch-up to that and also invest into those technology platforms, or access them somewhere else. And I think this will be a continued trend and we feel that Evotec is really well positioned in that regard, especially when it comes to drug discovery, drug screening purposes, more increasingly also now with the acquisition of Ncardia AG in Cologne in drug safety and toxicology profiling. And also in the cell therapy space where we have existing collaborations with Sanofi in diabetes and looking at various other opportunities here as well.

Brigitte de Lima (Securities London)

Good afternoon and thank you for taking my questions. I have three. The first one is on the venture capital investments that Evotec has been doing. That has become much more frequent and I was wondering if Evotec actually has a dedicated fund internally where you budget for say beginning of the year, what size could that be, or do you still do it on a more opportunistic basis and sort of assess this on a case by case basis? The second question is on the P2X3 asset, it wasn't entirely clear from the press release if the next step is a phase 3, which triggers a milestone or is there is still another phase to be maybe in between? And then finally on the IO drug that you are developing with Exscientia I was wondering if you can provide any information whatsoever on the target or the mechanisms of the molecule, at least is it sort of a check point inhibitor, sort of top level? Thank you.

Werner Lanthaler

Thank you. On the partnership with Exscientia I will hand over to Cord at the end, on our "equity investments" it is a very clear strategy that we have not built a fund, which makes independent decisions. We are operating here on a case by case basis, evaluate on a case by case basis, operational effects that are together synchronized with our operational platform.

So the dimension of that is opportunistic, the cases are opportunistic, and we go forward here in an opportunistic way, but we are very happy to see the operational synergies here. On Bayer, please understand that we cannot comment on the development strategy of our partner here. But we will inform you in the moment we know exactly how the development strategy goes. With this I hand over to Cord.

Cord Dohrmann

So our partnership with Exscientia is sort of between a (inaudible) disease and immuno-oncology approach adenosynergic receptors that we are targeting here, once again this is a program where we participate significantly in the upside of this program, but this is a program run and steered by Exscientia so that we cannot comment really beyond this on the profile.

Patrick Trukio (Berenberg)

Hi. Good afternoon. Just a follow up regarding the uses of cash. Can you tell us how we should think about priorities for business development, M&A, and equity investments in the context of a leverage ratio that is less than one times adjusted even on, if there is a target leverage ratio over time or a maximum that you would not look to exceed over time.

Werner Lanthaler

For us, the key goal is to have a healthy operational cash flow and with a healthy operational cash flow, growth opportunities are ranked and prioritized behind that. Having said that, the great situation that we are facing right now is that the investment opportunities that come out of our own pipeline are very, very compelling and by opening this multi-modality opportunity driven platform, I think the priority number one is clearly to invest in the growth or our own operations by, for example, leveraging the opportunities of biologics drug discovery into biologics drugs manufacturing going forward also into the deeper parts of the value chain, just like we have done this in small molecules with the acquisition of Aptuit for example, two years ago. When it comes to target leverage rates, I think we look at peer groups and others and we are way below what others can show here, but, it is a unique business model that Evotec is doing, so therefore it is not on top of our list to do that. And I think with that, also here there is no target that we have set ourselves to, for example, put into the equity investment box. It is something where the target is only driven by: Is this truly value generating for our shareholders and is this creating enough excitement to invest into an opportunity or not into an opportunity. I think, last sentence on this one, what is great to see is that the market for debt opportunities are open for us and with this, what our finance team has done here by issuing the "Schuldschein", we have seen that this tool, like for example also the EIB loan is open for us. Enno, do you want to comment additionally on this, maybe?

Enno Spillner

One comment on the leverage of the net debt factor, as you asked. There is not a defined number here at Evotec where we say this is our target, but we definitely know a threshold, which is common in the market which is roughly at 3% and that is when you would go out of the investment grade. And we clearly have achieved, in the past years, investment grades within various banks, according to their internal records, which is quite positive, and we will make sure that we do stay conservative here and do not over-leverage. So this is kind of the

threshold where we want to stay away from unless there is really urgent need, but this is not foreseeable right now.

Victoria English (Evernow Publishing Limited)

Okay. I have two questions. The first concerns the iPSCs. Cord, a minute ago, or two minutes ago, you said that one of your goals is to look to cell therapies and you mentioned your collaboration with Sanofi and diabetes. I am wondering if Bayer might be a natural partner, given the fact that you already collaborate in at least two areas and the fact that Bayer has just taken full control of Blue Rock Therapeutics, that has an iPSC product coming in to clinical development. That is question number one. And then question number two has to do with, Werner, with what you said in the introduction. You said, our goal is to build a co-owned pipeline with our partners. So, does this mean just for the EVT Innovate side of the business, or the whole business, and secondly, I think the idea of co-owned sounds very attractive in terms of bringing in a diverse number of technologies, but at the end of the day, who is in charge?

Werner Lanthaler

Let's first hear Cord on iPSCs and I will then answer the co-owned pipeline question.

Cord Dohrmann

Thank you for your question. I would say, when it comes to potential cell therapy approaches, I think, more generally speaking, cell therapeutic approaches are becoming, or turning into an opportunity for many pharma companies in their respective areas. For us it is interesting to see that other companies such as Bayer have made significant investments now, in particular by the acquisition of Blue Rock, where the lead program is directed towards the treatment of Parkinson's Disease, which is exciting to see, and also puts a certain price tag on these types of therapies, potential therapies, even at an earlier stage, which is very exciting. We do have, as you rightly noticed, a number of relationships with Bayer and Bayer has been a fantastic partner for us in endometriosis, chronic coughs, kidney disease and hopefully in the future there will be additional opportunities and here I certainly would not rule out that one or the other cell therapeutic approach could be on the list here as well. But there are many other companies who are starting to look in more detail at cell therapeutic approaches as a potentially, not just disease modifying approach but potential curative approach for the longer term and so I think there are many more potential partners out there in these areas.

Werner Lanthaler

On co-owned pipeline building. I think the first element to look after is what are the sources for co-ownership? Source one is our own EVT Innovate project, where we first invest and then translate these projects into partnerships and with this typically co-own. Second, we can come to co-ownership via our EVT Execute platform where we, for example, sometimes take risk-based approaches in deal structures, and with this come to co-ownership. And thirdly, where we build so-called BRIDGES where we get to very early ideas out of academic institutions or take very early ideas in the venture community and via equity investment start to co-own. So, that is the starting point of co-ownership. When it then comes to driving co-owned modalities or pipeline projects forward, I think it is a fantastic expansion to now not only have the focus on small molecules, but being able to progress biologics, where today we have a

small proportion of our pipeline but this will increase significantly, especially with the acquisition of Just going forward, where you have cell therapies, where we are building a whole portfolio and where you have, of course, small molecules. And the third thing is, when it comes to who is in charge, there is a very clear governance behind every project that we run and this very clear governance has very clearly defined roles, who is responsible for what part of the value chain. And here, Evotec can offer expertise, competence and execution on all the steps you need along the value chain and then it just comes down to how do we blend our skills together with our partner to optimize capital efficiency and speed in these transactions. That is how it is built and that is why we can leverage this strategy into many, many more projects that we will build.

Bu Balen (Head C Range)

Hi, this is Bu Balen, filling in for Raberam Siveradju, we are from Head C Range, New York City. I have a few questions to ask. Maybe I will start with the first one first. Last month, Evotec and a couple of VC firms formed Breakpoint Therapeutics, essentially a spin-off of your DNA damage response portfolio. As you may be aware, both small and big companies have already set their foot in this place and they target both molecular pathways as well as individual cell-cycle targets. For instance, in the case of AstraZeneca, which already has an approved drug Lynparza, a PARP inhibitor which (00:51:54 unclear: astounds) the base exitions repair pathway and then among the small companies in this field we have Seer Oncology which has got a couple of assets, checkpoint kinase 1 inhibitor and checkpoint cell cycle 7 kinase inhibitor. So, given the nature of the competitive landscape, I was curious to better understand the unique features of your DDR portfolio and how your platform permits you to deliver advantages versus existing therapeutic modalities?

Cord Dohrmann

Sure. Happy to take that question. Thank you very much. So, first of all, of course you are absolutely correct that the DNA damage response field is becoming an increasingly attractive field for pharma companies, and Lynparza from Astra Zeneca is really the poster child here which is expected to bring in billions in 2021, in terms of revenues but there are additional PARP inhibitors out there, Zejula, Rubraca and others that are following, this is clearly not the molecular targets that they are going for at this point in time. We have taken a very systematic approach to DNA damage response in conducting a couple of phenotypic screening approaches and thereby identifying and ranking many target candidates. Currently we have homed in on a portfolio of three, potentially first-in-class approaches, here target approaches in the DNA damage response field. We feel that there are many other opportunities out there, but this is currently the portfolio they are going for. Within the context of Breakpoint Therapeutics we will, most likely look at additional target opportunities and if we feel that there is an opportunity to continue to grow the portfolio beyond what we have currently, we will absolutely do so. And that is exactly the reason why we decided to spin this approach out.There are just more opportunities than we could muster through our own R&D budget at this point in time and here, combining this more systematic approach, the initial pipeline with a team of experts that has been working in the field for many years by now, was just a fantastic opportunity. And with Medicxi and Thaiho we are really extremely pleased to have superb, highly recognized international investors on board and I think you have to understand that we cannot really comment on the identity of the molecular targets, at this point in time that we are pursuing, but we will do so in due course as Breakpoint proceeds.

Bu Balen (Head C Range)

All right, thanks a lot. Moving forward, this is about your GNA Now project. As you may be aware, there is no new class of antibiotics since 1962, especially in the gram-negative infections section, so that actually makes your GNA Now project sound pretty intriguing. I also see that you plan to complete at least one Phase I from your Program by 2024. What is the strategy to succeed in this difficult therapeutic place? There are many others, including large pharmaceutical companies. They fell flat in the past. Can you provide us with more colour on the target or the therapeutic class, mechanism of action, specific market opportunity?

Cord Dohrmann

The GNA Now collaboration is a larger collaboration, so we are working with many top-notch experts in the field on the development of a novel class of anti-microbial therapeutics. And I would say, we fully recognize what you are saying that this is technically and from a field perspective a field that is just as hard as any other field of drug discovery but this is also an area where I would say that currently there is much less competition than in other areas. We feel that really investing in these areas, together with very clear leaders in the field on individual approaches and also bringing new technologies to bear on these drug discovery approaches, be it new assay systems, be it sequencing efforts, etc. This is where we feel that Evotec, together with our partners, we have the best possible shot at success and probably a little less competition than in other areas of drug discovery. I would say we are fully aware of the individual risks, pursuing individual targets here and approaches and this is also why we continue to build a portfolio here of approaches. We are trying to spread the risk by making sure we are co-financed on these programs and like I said that we are bringing the best possible technologies to bear on these programs. In that regard, that is also why I mentioned, for example the Helmholtz collaboration, with Rolf Müller, really, one of the best know world experts in the field of natural products and new classes of natural products, where we simply say, these are top-notch approaches, top-notch teams, top-notch technology platforms and a balanced risk in terms of the financing of these programs. So we feel that these are, in that regard, excellent opportunities and I think that somebody will succeed at some point to develop a new class of antibiotics and antimicrobials and I would say that at this point in time, actually, that Evotec is quite well positioned.

Bu Balen (Head C Range)

All right. I really appreciate that. Moving forward. So this is my third question. After your company presentation, 45% of your partners are biotech companies. So I am looking for a little granularity here. What percentage of your current biotech partner network uses your discovery services and what percentage use your preclinical or manufacturing or clinical development services or a combination of this and that? Maybe you could comment on that, please?

Craig Johnstone

Thank you. You are absolutely right. So, biotech represents a major part of our partnerships of course and it is probably not so surprising as to why that is the case. Many of these biotech companies have areas of specific interest, areas of specific expertise, but in order to be capital efficient from their perspective, they don't want to build labs, build infrastructures, hire people and indeed as projects which may start in the discovery space mature, the nature of the

expertise that is required evolves. It starts off in discovery, perhaps in head framing, chemistry, disease area biology but as the projects mature, we move through safety, toxicology, formulation, API, and clinical development. And as Werner said earlier, we can provide, and we do provide the knowledge, the expertise, and indeed the experimental execution right through the value chain, from the very, very early stages of an idea cooking all the way through to even commercialization. And so, by way of a direct split, I don't think I have got a number that would accurately distinguish discovery service provisions versus development service provision. But certainly, biotech in particular, draws on the full spectrum of services and partnership capabilities that we provide for the reasons that I have said. We need to tap into different skills and different experimental paradigms all through the value chain and as their projects mature towards key inflection points. Does that answer your question?

Bu Balen (Head C Range)

Yes. Kind of. Appreciate that. So the fourth question is: the global R&D outsourcing market is valued at as much as 150 billion euros, and your share last year was approximately 375 million euros, which represents approx. 0.25%. It looks like there is a lot of room for growth. In which segments specifically, do you feel Evotec is best poised to aggressively expand market share.

Werner Lanthaler

We are growing, as you see, in our business lines, at this stage, in every single business line. For us it is more a question of how to prioritize where to grow. That is the first part of the answer. The second part of the answer is we are growing especially in the areas where the best co-ownership opportunities are evolving because that is essential to our strategy. The third area which we have addressed to grow is really the approach from multi-modality driven discovery approaches, where, basically, we wanted to, on our platform, close the gap of so many companies out there who are not able to address an early target via an antibody or via small molecules or via cell therapy. So that was, for us, absolutely essential to close, to create the unique position out there. With this, we feel very complete at this stage, as a platform, and of course we are always adding on where new technology is evolving, but that gives us a growth opportunity market, where the macro trend, as you rightly pointed out, will not go away. Our only question is how can we resource internally the capacity to deliver the quality that ultimately our partners deserve. And that is where setting ourselves a target of about 10% growth per year, in all business lines or overall business lines, is giving you the quality parameter that we have set ourselves, where we say that is the number of employees that we can integrate into our capacity. That is what we are doing at this stage and that is also a part of the long-term action plan 2022.

Joseph Hedden (RX Securities)

Thanks. Just two quick follow-ups, if I can. On the Sanofi infectious disease R&D, it's actually covered by Sanofi, I think in your annual report you guided to about your expectation of € 35 m in this R&D and you have put 10.6 in the first half. Is it correct to assume that there is going to be a ramp in the second half? And then, secondly, on Aptuit, I think you disclosed the split of Aptuit revenues in the first quarter. Would it be possible to get Aptuit revenues for the first half? Thanks very much.

Werner Lanthaler

On the Aptuit question I will hand back to Enno, but we, just to caution you, we tend not to give out individualized performance lines, but nevertheless I will then give back. And on the infectious disease question, we have always assumed, of course projects over their life time, so how this stands out exactly in a year, is hard to say. But I think you are correct by pointing out that it will be hard to spend € 35 m in infectious disease because that would require significant typically external costs, and these external costs would come by manufacturing clinical trial materials which we have started, for some or the projects but it will be difficult to ramp up the costs as aggressively to reach the full 35 million. Where we go exactly, we will see, but it is fair to assume that it could be a little less.

Enno Spillner

Joseph could you repeat the Aptuit question please? It was not quite clear here.

Joseph Hedden (RX Securities)

Yes. Sure. So, it was just on the fact that, and I appreciate that as business gets mature you won't tend to report the lines of your acquired businesses, but in the first quarter, I think you booked Aptuit sales of about € 29 m. I was just wondering if you could give us a number for the full first half? Thank you.

Enno Spillner

What you are saying is correct, so we are not guiding on the individual parts of the business or of the acquired units, but I think, in principle, if you apply what you have seen in the Q1 and roughly multiply this for the second quarter, then you are on a pretty good track for the first half year. Overall we have seen a really good performance in the first half year of Aptuit which is fully on track with what we had anticipated and what is planned in the budget.

Alex Gobbers (Kapex)

Thanks for taking my questions, I just have three. Could you elaborate on the rationale for not raising EBITDA guidance in line with revenue guidance? Can you give us a sense of how large the milestone for Bayer starting a P2X3 phase 3 will be? And the third, what was the rationale for returning the Second Genome program to Evotec and what is the plan with the program now? Thank you.

Werner Lanthaler

Our EBITDA is largely driven by milestones that are performance based. Give the volatility of our milestones, because they depend on scientific results, we, I think, have here gone the cautious way in leaving this open to the actual scientific events. That gives you the first answer to your question, but I think it is notable that we have increased our EBITDA guidance beyond 10% and not approx. 10%, just to point that out again. As phase 3 start of Bayer P2X3 project would result in a significant milestone, which would be double-digit millions. And the returned rights from Second Genome and that is the principle behind our collaboration, are now returned to Evotec and we will explore how to ultimately use these rights in either our own research or in a partnership or sometimes we cannot use them anymore because for example patent license becomes short or there is just no scientific rationale.

Bu Balen (Head C Range)

Hi. Sorry. I got disconnected. I have actually got two more questions. The next question is about LAB282. About two years ago LAB282 was conceived and founded. Now, in November 2019 it will near its three-year term, so your end goal is to create three or four spin outs out of LAB282. So how is the progress so far and can you provide more granularity in terms of the commercial viability of these projects, funded through LAB282.

Werner Lanthaler

And the second question? Or is this all the questions that are open?

Bu Balen (Head C Range)

Okay. I can ask the next question. So, you have been in a partnership with CHDI. It is a non-profit organization solely for Huntington's Disease for over 13 years. As you may know there is no cure for Huntington, we only have VMAT-2 inhibitors that only provide marginal improvements. So, I am curious, when do you anticipate delivering a clinical candidate in the Huntington space? Thank you very much.

Werner Lanthaler

So, question number one on LAB282, we are, and I think it is fair to also comment here for our partners, very happy with the progress of LAB282 and I think that would also be the statement of Oxford University. We have more than 27 projects, which are actively at this stage evaluated, in progress. We are nearing our three year mark of this partnership but I think it is fair to assume that there will be very clear acceleration and expansion and a prolongation of this partnership of LAB282 because it is a highly successful, highly capital efficient way to translate first-in-class science on our industrial platform which gives academics access to this platform. So I think here the proof of concept for the BRIDGE model has been definitely achieved and will go forward in this partnership. And on CHDI we also cannot comment on all the projects that we are involved in, but you should assume that all the projects that are currently progressing in Huntington Disease where the CHDI, as you know, the key funding organization in this disease area from the foundations, is involved, is very close to Evotec, and I think there is a commitment from our side that, of course also from the Huntington Disease foundation, that our expertise and our commitment to Huntington Disease will not stop until we have a cure for the patients and that's why, whatever it takes, we will do together with the CHDI to push here novel targets and novel clinically assets forward.

Norris Johan (Intron House)

Yes, it is Norris Johan from Intron House here. I have three questions please. Just Bio, there seems to be a full suite of biological services that they offer from manufacturing all the way to antibody re-engineering but there are only 95 people or so in the business. I think you have alluded to this already, but a bit more detail would be helpful. I am guessing that you are going to have to materially invest in this business based on a CAPEX and people perspective, similar to what we saw with Cyprotex, so that it is sufficiently resourced to exploit all of the technology that they have or is it fair to assume that some of the technology isn't of any interest and therefore requires less investments. And then, following on from that

strategically, do you feel that you need the ability to manufacture in larger volumes than Just Bio currently offer. Obviously, Wuxi is much further ahead in this kind of line of business, took 28% market share because biotechs are keen to have a one-stop shop when they go into partnership with people. Is that a consideration? Clearly that requires significant CAPEX and may explain the recent fund raise. And then, lastly, on EVT Execute, the gross margin was up over 500 basis points in the first half and if I understand this correctly, utilization has been high for quite some time now, so it is probably not just coming from scale benefits. Just trying to understand what is driving that improvement. Is it higher price? Price mix? What is going on, how sustainable is that and where could it get too? Thank you.

Werner Lanthaler

Thank you. On the third question of the EVT Execute business, Craig will comment. And also on the Just Bio idea of long-term higher volumes that we are making there, but let me comment on your first question. Taking over 95 highly qualified, highly experienced people in that biologics space is a fantastic opportunity that we were able to capture. There is nothing that we want to de-prioritize from what Just has done. On the contrary, everything that they have done, we want to extend and accelerate because you should see, and you have correctly pointed it out, the market opportunity there is not one where you are fighting against competition, you are fighting here especially to offer new opportunities for biologics in, for example, smaller drugs that haven't been served before. So there is a market space opening for more flexible manufacturing and that is the secret behind Just, that they are not following the steel tanks and less flexible ways of manufacturing like others have been doing this for a long, long time. This is highly agile manufacturing, which will allow completely new products in biologics to be made. That is why we are so excited about this. With this I hand over to Craig.

Craig Johnstone

Thanks Werner. And maybe if I can just pick up on your lead there about Just. Thanks for the question. Obviously, as Werner has said, the trick with Just is to compress and increase the yield from a unit volume of manufacture for biologics and to succeed in that it requires engineering of every step of the process, not just in the manufacture, but actually even in the selection of antibodies for manufacture, which is why they are also engaged in design and selection of antibodies which are then more suitable for high-compression manufacture. And as a result then it is possible, and they have done this, to produce even kilograms of material of what 500 litre of 1,000-liter disposable vessel. And there are various transformations, both upstream of the vessel and downstream of the vessel, that enable that kind of productivity in terms of masses of material out of what is effectively a small capacity vessel for production. But you are also right, many partners would wish for a one-stop shop and wouldn't want to undertake a technology transfer as they need more material and as they move towards commercial manufacture. So that is also exactly why, as I said earlier, we are currently evaluating the construction of what we call the first J-POD. This would be to take this flexible modality manufacture paradigm and take it into a commercial scale and a commercial facility. And we are evaluating that right now, particularly in the first instance, in the United States, to capitalize on the skills and the know-how of the people in Seattle. I hope that answers the question.

Norris Johan (Intron House)

Could I just ask: am I right in understanding, they have basically got currently a 1,000 litre profusion reactor and you will be adding to that to get you to a level where you have sufficient capacity to manufacture commercially for, unless say it is a cancer therapy, which may require 10 to 20 kilos a year. That is where you need to get to and what sort of CAPEX might that require? Is that the order of magnitude we are talking about?

Werner Lanthaler

First of all, you are right and secondly when it comes to building the capacity, that is done in a modular way. And also, as you should be aware of, Evotec has been investing into cutbacks for manufacturing, for example in Aptuit in the last years, we have been investing in cutbacks every year, significantly and we will also, of course, do this in the context of building the J-PODs as Craig has pointed out. That will be a longer-term process which we have already initiated to evaluate, where we will make a decision very soon of how to do that and it will come down to the question of how much capacity do we want to build how fast? But we want to go here not only for being able to do this for small products but potentially also for larger products and that is where you are going down the direction of how many trains in how many vessels do you ultimately want to build up. And that would be a range of investment which we can clearly stem from the existing funds that are already in Evotec.

Craig Johnstone

And just to be specific, it wouldn't necessarily mean going up in scale of reactors from 1,000 to 2,000 to 10,000 litres. The vision is that, from an agile perspective, if you have two or three parallel vessels of 1,000 litres each, you can deliver that kind of massive material. Okay. And then on Execute gross margin and the improvement over time in the performance of Execute, I think Werner already said there are many pieces of such a puzzle and I think what we are seeing here is a contribution from many features of operational improvement, investment and delivery which, combine together to conclude with a good strong business performance. Examples are, of course, as I mentioned in some cases there are milestones for technical success, and of course the milestones always give an enhancement in terms of the financial performance in gross margin of any platform projects like that. But as I also said in the report, we have also been investing steadily in a continuous way in operational performance improvement, cycle times, efficiency, and technical investments to make sure that the platform is the most efficient it can be. And that results in, of course, a small, but cumulative benefit in overall financial performance. And then the final thing I think is the power of integrational services. So, we provide a very integrated set of capabilities for our partners and as a result then, we don't scale just chemistry or just screening very often but it is generally the combined power of the organization and the knowledge of drug discovery that allows us to put together a very compelling case for Execute delivery and for project progression. And in that case them, the advantage that we can provide is worth a premium to our partners because it is a very convenient, very effective, optimally efficient way of progressing projects in a rapid way. And so all of these pieces combine together to form a very strong financial performance.

Norris Johan (Intron House)

So just to be clear, there is a price mix improvement from the ability to bundle together a whole bunch of services and your customers find that valuable, obviously.

Werner Lanthaler

Yes. Thank you very much. So, first of all, thank you for the well thought through questions and the dialogue. Secondly, thank you for following Evotec and if there are any further questions, don't hesitate to reach out to our IR department and thirdly, let me wish you a great day and great remainder of 2019. We will report back with the next highlights to come, soon. All the best. Bye-bye.