Evotec AG
Transcript of the Conference Call
Fiscal year 2017 results, 28 March 2018 – 2.00 p.m. CEST

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

Operator

Dear Ladies and Gentlemen, Welcome to the Annual Report 2017 of Evotec AG conference call. At our customer's request this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. If any participants has difficulties hearing the conference, please press *(star-key) followed by 0 (zero) on your telephone for operator assistance. May I now hand you over to Dr Werner Lanthaler, CEO of Evotec AG, who will lead you through this conference. Please go ahead, sir.

Werner Lanthaler

Welcome and thank you for dialling in for this conference call for our full year 2017 to report on Evotec. We have uploaded the presentations so it would be great if you can follow this conference call with this presentation, because we will use some of the slides.

Excellence in external innovation – that is what we put as a theme out there that should guide us through the conference call to come and I am here with my colleagues Mario, Cord and Enno, my management team that has done excellent work last year and is preparing for more good work to come in 2018 and the years forward. But at the same time let me say also thank you to our approx. 2,200 co-workers in Germany, the UK, Italy, France, the USA and Switzerland, because what you see is the joint effort of the team that is united in the spirit of bringing excellence to the biotech industry. So the goal of this call is that we will briefly look back on 2017 and give you some highlights of the seeds that we have planted for 2018, and the years to come and very importantly we will also give you a long-term view of what we call Action Plan 2022, which should illustrate to you that we really feel that it is just the beginning of the mega trend that we are leading in external innovation.

If you go to page 4 of your presentation, you see the highlights of a fast-growing platform. Ultimately we are building a co-owned pipeline portfolio. To summarize the state of the Company, it is fair to say that the situation of the Company is strong. I think it is even fair to say that the situation of the Company is very strong. Mario will guide you through the EVT Execute highlights, Cord will guide you through the EVT Innovate highlights, and let me just on a corporate level tell you that we are preparing plans to convert our Company to a modern form as an international SE, which we announced yesterday night. And from an outlook perspective for 2018 let me just highlight that we think a very strong 2018 is coming with a "3x30" guidance that we are giving, which Enno will illustrate later in the call. However, before we look forward on page 5, let us highlight that all our financial performance goals were achieved and some of them over-achieved in 2017, with more than € 257 m in Group revenues and € 58 m adjusted Group EBITDA we feel that we have delivered what we promised.

On page 6, if we take one deep breath and for a moment think forward and think about the year 2022, you should see that we have prepared an Action Plan that is much more than just a wish, it is the result of high intention. Action Plan 2022 represents the highest ranked choice of many alternatives that we could have made and we bring together excellence from many different areas on our platform. Action

Plan 2022 is what you see on page 7 the continuation of a consequent and fast-forward path that we are on. Some of you might say that is boring that we are doing more of the same, we love it, because what we do, we bring excellence in science and execution together. In 2009, we introduced Action Plan 2012 where we started to set the basis of today's leadership position in excellent innovation through excellent operations. With Action Plan 2016, which we introduced in 2012, we were increasing the focus on scientific innovation and excellence, and Action Plan 2022 is now accelerating both driving strains of our DNA fast forward. So you see highlighted here that we will be a sustainable and profitable highly cash-generating biotech company that will have a performance-based business model, which will make us dependent on milestones going forward, but that is the upside risk and the limited downside risk that we take in our business model. We are striving to achieve a number 1 position in external innovation and when we say number one we mean global no. 1 position to serve our partners in biotech, Pharma and in foundations. We are going for a unique business model where we are tailor-making our solutions to make science better and also we are building bridges to Academia where you so far only see two but there are more to come and ultimately we are bringing a co-owned pipeline together.

Page 8 outlines to you what kind of value-drivers the three initiatives will bring together. EVT Execute, EVT Innovate and our corporate acceleration initiatives will ultimately show you in the years to come that our mega trend will not only continue the way it is, it will accelerate and we will lead the platform there. When on page 9 you take a little quantitative look at the model that is behind this plan you should see that the model looks strong but more importantly what you should see that it is the idea to drive a profitable business model in biotech forward which is generating a co-owned pipeline. You do not see the co-owned pipeline here but Cord will come to that later, but that is really the upside value that is generated on this platform. What you should always consider that it will be a milestone-driven volatile business going forward but the good news here is that we expect further profitable quarters in the future and it will be a continued profitable business with of course volatility coming through milestones. So please don't focus too much on every single quarter, focus on the long-term view of this Company. When you look to also one situation, which is coming from the subsidies that fall away in Toulouse you should see that we are perfectly able to digest a dip that will come there, naturally, through the profits from somewhere else in the Group.

On page 10 we say excellence needs excellence, and that is what we are driving within our company, because we were really inspired, and are permanently inspired by science, just like James Watson and Francis Crick were when they in 1953 built their model, we are building our model. It is maybe not such an elegant formula as they have put together but the search for excellence at Evotec is not just a random act, it is our long-term passion and it will become a habit. On that note, I do not know if this formula is correct or not, it just looks good and we wanted to share it with you and on that basis I hand over to Mario who will bring you into the highlights of EVT Execute.

Mario Polywka

Thank you very much, Werner, I like the formula as well and good afternoon to everybody. A pleasure once again to give you an update on the performance of the EVT Execute segment in 2017, which although outstanding in its own right, also sets a foundation for 2018 and beyond as Werner has described with Action Plan 2022. Slide 13, this is a depiction of Evotec's end-to-end platform offering in drug discovery and development. As you can see, with the acquisition of Aptuit, Evotec can now support our partners totally from target to IND and in some cases beyond. It is under one integrated offering and it is a truly unique business solution in our industry.

Moving to page 14 and to some of the metrics behind the performance of EVT Execute, this illustrates the continued strong performance of the business segment with a 46% growth in revenues to more than € 250 m, and a concomitant drive in adjusted EBITDA to greater than € 63 m. This tremendous performance is driven by the core business contributions from Cyprotex and Aptuit and also milestone achievements.

Moving on to slide 15, 2017's performance, as you can see and as you have heard throughout 2017, was underlined by strong delivery of long-term collaborations such as those with the CHDI, UCB, Bayer, Forge as well as new integrated partnerships with the likes of companies such as ABIVAX, Blackthorn Therapeutics, Dermira, STORM, TESARO and of course many others that we cannot name. Milestones with UCB, Bayer and Boehringer Ingelheim were also delivered and we are very pleased to say that Cyprotex has delivered ahead of plan and we see a shift in this business, from tactical to more strategic projects. The next slide 16 shows that the addition of Cyprotex and Aptuit has broadened our client base, and this means that we are less reliant on a small number of clients as we may have been historically. We continue to sell strongly across the whole industry and as you can see here, sales in Europe growing versus 2016, this is mainly due to the acquisitions with Aptuit serving strongly as a European clinical centre of excellence.

Moving on to page 17 and a little more detail on the update with Aptuit. So, 2018 sees us entering the very first full year of Aptuit's contribution to Evotec, the Aptuit acquisition is effectively the largest transaction that we have done to date. However, we have been able to put into practice our integration skills and knowledge from the past, and the initial integration of Aptuit within the Evotec Group is proceeding well. This has also been and most importantly, well received by the market and we are now seeing the impact of integrating pre-clinical capabilities into our drug discovery platform.

This is highlighted in more depth on slide 18, where Aptuit brings a whole range of pre-clinical and CMC capabilities and expertise to the Evotec drug discovery and development armory. Recently you will have seen that we have launched formally our INDiGO® solution to the market. INDiGO® represents an integrated solution to progress from late-lead optimisation to submission of an IND or equivalent of specification for Phase I trials. The advantages of planning pre-clinically in a later lead optimisation and then running all the required activities under one roof and one project management leads to significant time efficiencies and hence cost. We have now seen the benefits of cross selling from our existing discovery programmes in INDiGO® but also the power that INDiGO® brings us in being able to capture new drug discovery programmes.

Finally, and in short and not wanting to reiterate what Werner said, our objectives and targets for 2018 are very clear. More of the same please but only better and bigger. We will continually strive to be better at delivering on our current projects, to grow with existing partners and to originate and capture new programmes and partners with the expanded development capabilities of Aptuit we are now at the perfect time in the industry to deliver a truly integrated target to IND offering. Thank you very much for your attention and I will now pass on to Cord to talk about our EVT Innovate segment.

Cord Dohrmann

Thank you. It is my great pleasure to give you an update on EVT Innovate. 2017 has been a truly great year for EVT Innovate and EVT Innovate has made great progress on all fronts. We continued to expand our academic BRIDGE efforts and thereby continuously expanded our pool of high potential next-generation projects. We also continued to expand our pipeline of projects to now over 80 projects, all of these projects carry very significant commercial upsides for Evotec. In addition, we expanded our EVT Innovate R&D portfolio into new disease areas and have added projects in respiratory disease, retinal disease as well as in anti-infective. Furthermore, we continue to expand the scope of EVT Innovate discovery platforms, in particular we expanded our iPSC-based drug discovery platform but we also continued to invest into high-throughput proteomic approaches and artificial intelligence platforms. Finally, we also expanded our portfolio equity financing and co-investments that further expand our pipeline of EVT Innovate projects, which carry upsides for Evotec. Unfortunately, we will not be able to go through and cover all progress with EVT Innovate in detail, but we will try to summarize some key points in the next two slides, starting with our continuously growing pipeline on slide 21.

Just as a brief reminder here, the key objective of EVT Innovate is to build significant financial and commercial upside for Evotec to the co-ownership of high-potential drug product opportunities. Essentially all of these drug products on this slide share three important principles: First of all, basically all product opportunities in this pipeline are potential first-in-class drug products in areas of high unmet medical need with very significant market potential. Secondly, for most of these projects there are very strong partners who are holding the majority ownership but they also provide the funding to develop these drugs all the way into the market, and thirdly, Evotec carries very significant upsides through pre-clinical, clinical, regulatory milestones and significant royalty payments associated with the developments of these into the market. In addition, in the discovery of pre-clinical development phase, Evotec receives significant research funding. We started to build this pipeline in 2010 putting the first two or three partnered product partner opportunities in place, and this pipeline has now grown to over 80 co-owned fully financed product opportunities, all of which carry very significant commercial and financial upside for Evotec.

The next slide 22 summarises EVT Innovate's financial performance in 2017, in short EVT Innovate's financial performance made spectacular improvement in 2017. It not only improved the top line revenues by 65% to almost € 44 m but at the same time very significantly improved adjusted EBITDA to a relatively moderate loss of € 5 m, while keeping R&D spend essentially constant at around € 20 m. This means that we continue to build and expand a very substantial commercial upside for Evotec based on a very focused R&D effort. The continuously increasing EVT Innovate revenues are currently solely generated through the R&D funding and relatively early development milestones. This means that most of the upside is still to come, thus the existing EVT Innovate partnerships are highly profitable R&D partnerships which set a clear incentive to continue our EVT Innovate investment strategy and potentially even expand our investment.

On the next slide 23, I would like to remind everybody that much of EVT Innovate's success is not only built upon a portfolio of highly differentiated drug product opportunities but also highly differentiated next-generation discovery platforms. In the past, we have built unique biological platforms around specific disease areas, more recently we have focused our efforts on platforms that support the increasing personalization of medicine. Just to mention a few examples, we continue to build up our iPSC-based discovery platform; we are given broad access to samples of clinical data from disease patients allowing us to generate unique and highly valuable molecular phenotypes. Our pipeline of clinical stage programmes progresses nicely while we continue to expand it to new clinical starts, and finally we are able to expand our pipeline in infectious diseases through an R&D partnership with Sanofi which will provide a very exciting pipeline of projects as well as a leading team of anti-infectious disease scientists and drug contests, which is expected to be closed in H1 2018.

On slide 24 you can see that the mega trend in the pharmaceutical industry is the increasing personalization of medicine. Personalized medicine has been primarily driven by human genomics and the development of the biomarkers. This trend will continue and will more and more involve patient-derived disease models, this will further be complemented by molecular phenotyping through proteomic, transcriptomic, and metabolomics analyses. Molecular phenotyping in particular will generate very comprehensive and complex data sets that will require new analysis tools, including artificial intelligence supported data analysis and interpretation. At Evotec, we intend to be at the forefront of these developments and are continuously investing into these platforms and novel tools. The mega trend of increasing personalized medicine is the major reason why we continue to expand our leading iPSC drug discovery platform, key progress of which is summarized on the next slide.

In 2017, we invested in patient-derived models from muscle-wasting diseases such as FSHD by investing in Facio Therapies. We also invested into a collaboration with the Center for Regenerative Therapies at the University of Dresden, accessing iPSC-based models for retinal diseases. Through NEPLEX we are accessing the work of UK academic institutions to develop new patient-derived models in kidney disease and furthermore we have partnerships with Fraunhofer, Censo and Ncardia to gain access to patient-derived cell lines and expand our access to relevant intellectual property in this area.

On the next slide 26, I want to briefly summarize why molecular phenotyping will be a key driver for personalized medicine and how it will have a major impact on the drug discovery process. Molecular phenotyping will involve transcriptomic, proteomic, metabolomics analyses of patient sample and thus provide new definitions not only for the disease but also for what is healthy in the context of variable genomes. New molecular phenotypes will generate a more specific definition of diseases and of what has to be corrected. This will influence the design of disease-relevant assays and read-outs as well as the development of biomarkers for *in vitro* and *in vivo* pharmacology in the pre-clinic and also in the clinic. Evotec has and will continue to invest into these platforms and thus continue to improve the drug discovery process by defining diseases more accurately and thus designing more disease-relevant read-outs for drug screening and also development.

Beyond novel platforms, we also continue to invest into the acceleration of our pipeline of drug candidates. A significant step forward here is shown on slide 27, our most recent effort here is to build a strategic partnership with Sanofi in the field of infectious diseases. Through this transaction, Evotec will not only expand its infectious disease discovery and development platform by approx. 100 highly experienced scientists but also access a pipeline of more than ten research and early development projects. These projects will be primarily in the field of antimicrobial resistance but also anti-virals as well as global health. All of these assets and investments serve primarily one purpose, which is to continue to expand our portfolio of co- and drug product opportunities with very significant commercial upsides for Evotec. Once again the current pipeline consists of about 80 co-owned projects, about ten of these are currently at clinical stages of development, 25 in pre-clinical stages of development and about 50 at discovery stages. On average, these projects carry a financial upside for Evotec of about € 1-10 m in upfront payments, € 150 m per project and about 8% in royalties on average. We are extremely proud of these partnerships as they generally involve true leaders in their respective fields such as for example Sanofi in the field of diabetes, Bayer in the field of endometriosis and kidney disease, Pfizer in fibrosis and so on.

Already existing partnership continue to make great progress as you can see on slide 29. You can see that we have made very significant progress in our iPSC drug discovery alliances with Sanofi in diabetes and Celgene in neurodegeneration – these alliances carry a potential upside of € 250-300 m per project respectively and we are optimistic that they will deliver additional milestones in 2018. We are able to report similar progress from other EVT Innovate alliances on page 30. We achieved these milestones in our kidney disease and endometriosis alliance with Bayer and expect further milestone achievements in 2018. Finally, we are making very good progress in our fibrosis alliance with Pfizer and had our first milestone in our immune-oncology alliance with Sanofi. Many of our alliances are planned to deliver further milestones in 2018 and in addition, we are very optimistic that we will sign further EVT Innovate alliances in 2018 as well.

We will now move to slide 31 to give you a brief update on our academic BRIDGE initiatives. Our academic BRIDGE efforts are really the life-blood of our EVT Innovate strategy. They provide a rich and never-ending source of future first-in-class projects into our EVT Innovate pipeline. In the first few years, we have structured many broad and long-lasting relationships with world-leading academic institutions such as Harvard, Yale, Max Planck and many more, in total by now over 40 institutions. More recently we have significantly expanded the model into even more strategic relationships which give Evotec even broader access to projects, but also additional funding for these projects. Here I would like to point out that our LAB**282** with Oxford University has already delivered more than 10 exciting highly innovative projects and similarly our LAB150 in Toronto, based on various leading research institutions which was only established in 2017, already delivered a first project as well. Overall, Evotec's academic BRIDGE motto is gaining momentum and we are confident to structure further BRIDGE in Europe and in the USA and expand our reach into cutting-edge innovation even further.

With this, I move on to give you an update on our equity investments on slide 32. In 2017, we invested approximately € 22 m into equity and equity-like investments, primarily to access an even broader scope of first-in-class innovation. In contrast to venture capital investors, we only invest into areas where Evotec claims critical mass of expertise and capabilities as the projects actually run on Evotec platforms. In 2017, we have expanded our portfolio of equity participation significantly to investments into Fibrocor, a Toronto-based fibrotic company; Forge, an anti-infectives company; Facio, a company focused on muscle-wasting diseases, and Exscientia, an artificial intelligence-driven company in the med chem space, where we are collaborating on an immune-oncology projects as well. Our EVT Innovate

R&D efforts are supported by the European investment fund loan facility of € 75 m and this includes all our equity investments as well.

Slide 33 now summarizes what you can expect from EVT Innovate in 2018, in brief it will be another very exciting and very strong year where we expect major progress essentially on all fronts for EVT Innovate. We expect new clinical starts and progress in our clinical stage pipeline, we are optimistic that we will significantly expand our academic BRIDGE efforts. We have a very strong pipeline of EVT Innovate R&D projects primed for strategic partnerships and we will continue to invest into transformative platforms which will speed the already moving mega trends such as personalized medicine. Thank you for your attention. I now pass over to Enno.

Enno Spillner

Thank you and welcome to all of you. I have the pleasure to introduce you to our 2017 consolidated audited financial numbers for the whole Evotec Group, including Cyprotex and Aptuit. And starting on slide 35, first of all and as indicated by Werner, we report overall a record year for the Evotec Group with highest revenues and record EBITDA in Evotec history. We grew our revenues by 57% and in line with this goes our 60% increase in the adjusted Group EBITDA from € 36.2 m to € 58 m. Thus we out-performed our guidance and over-achieved our revenue and EBITDA targets.

The strong financial performance is based on a broad growth mix within Evotec and I will get back to that later on. Our numbers reflect that Evotec is not only growing in one particular field but also based on various pillars contributing to the positive result in 2017. What I would like to point out here is the fact that we in 2017 do experience an increasing impact on our financial figures caused by our latest strategic activities and some other one-time effects. For example, we conducted purchase price allocations with regards to the acquisitions from which we find now linear amortization in our costs of revenue, obviously reducing our gross margin a bit. SG&A increased also due to a significant one-off effect from our strategic measures and please bear in mind that in 2016 our operating income was significantly positively affected by changes in contingent considerations due to the revaluation of EVT770 triggering the release of € 12.4 m earn-out provision. In addition, other operating income keeps profiting from an increase in our R&D tax credits that we achieve, moving up from € 10.9 m in 2016 to € 14 m in 2017. This does not mirror an increase of tax credits in France and in UK, but also new sources of R&D tax credits first time stemming from Cyprotex and from Aptuit Italy.

Moving to slide 36, also if we look at the breakdown of the two segments EVT Execute and EVT Innovate, we do see strong growth in both segments. EVT Execute revenues increasing 46%, and this is primarily attributable to a strong performance of the base business and initial contributions from our new acquisitions. EVT Innovate revenues significantly stepped up 65%, this increase resulted on the one hand from extended collaborations and the full year impact of new partnerships with Celgene and Bayer signed at the end of 2016 and on the other hand from higher milestone achievements that we could account for. EVT Execute is yielding a gross margin of 27% compared to 29.9% in 2016 and EVT Innovate is yielding a gross margin of 44.3% staying close to the 45.3% shown in 2016. Adjusted EBITDA for the EVT Execute segment is up 26%, € 63.2 m compared to 2016's € 50.2 m and adjusted EBITDA from EVT Innovate went up significantly by 63% to € (5.2) m and thus improving significantly coming from € (14) m in 2016.

Slide 37: Our Q4 2017 quarterly financials show very strong numbers, in particular due to a strong recognition of milestones, also translating into a very solid 234% upswing in adjusted EBITDA. On the cost side, to avoid any misinterpretation, the major part of the M&A-related one-time cost were recognized already in Q3 2017, just as a reminder. Regarding the operating income, we clearly can identify here, as mentioned before, one-time positive effect of the € 12.4 m in Q4 2016 with respect to the release of earn-out accruals, which is a non-operational effect. And, maybe as a general remark and Werner commented on this already, we will always see some volatility between the different quarters, e.g. due to one-time effect as just described or milestones coming or not coming. So it is very good to take a look at the full year numbers.

Slide 38 just confirms the clear and stable trend that we have now seen for a couple of years with regards to continuously growing Group revenues as well as increasing our adjusted EBITDA maintaining Evotec as an EBITDA profitable entity with an attractive gross margin. At the same time we maintain our strong commitment to invest into R&D and consequently into new innovative products, platforms and technologies. Needless to say that it is our intention to further continue these trends obviously in 2018 and beyond.

Diving a bit more into the details of some specific numbers like on page 39 starting with the revenues. The clear step-up in the Group revenues in 2017 as a result of the strong performance in base business increased milestone achievements and significant contribution from the acquired businesses of Cyprotex and Aptuit as mentioned before, revenues from milestones up front and licences amounted to € 27.8 m, an increase of roughly 47% compared to the previous year, which resulted mainly from higher milestone achievements, e.g. Bayer, Celgene and Sanofi. Looking at the gross margin, with the acquisition of Aptuit and Cyprotex, the gross margin now represents a slightly different mix. However, also important to recognize in the 2017 is the fact that the gross margin is affected by the increased linear amortization resulting from our purchase price acquisition of the strategic acquisitions. This amortization which is mainly booked into our costs of revenues was about € 5.6 m in 2017 and is subsequently affecting the gross margin in 2017. The gross margin without this strategic related effect would be 2 percentage points higher at roughly 34.2% in 2017. This amortization will not be a one-time effect but a linear revolving amortization is to be expected and considered in the coming years as well in 2018 first time contributing a full year of Aptuit in that regard.

Slide 40: R&D expenses reduced just a little in 2017, by 3%, however the reduction of R&D expenses was mainly triggered by the reallocation of certain projection to the Celgene collaboration portfolio which is generating revenues and therefore now has to be recognized under cost of revenues and not under R&D any longer. SG&A expenses in 2017 amounted to € 42.2 m, showing a significant 57% increase compared to € 27 m in 2016. The increase in SG&A expenses resulted primarily from a full year of expenses of Cyprotex, approximately adding 4.5 months of expenses of Aptuit as well as M&A-related one-time expenses. Furthermore, the overall SG&A headcount increased in business development, administrative functions and finance in response to the continued organic growth of the Company. The one-time cost for M and A related activities in 2017 amounted to € 3.9 m in total. It should be mentioned that the SG&A/revenue ratio remained stable at approximately 16.5% compared to 16% in 2016.

Slide 41: Also Evotec's operating result reflects the progress in numbers and amounts to € 37.5 m in 2017 to € 31 m in 2016. The 20% growth rate may appear a bit under-proportionate compared to the 57% increase in revenues and the 60% EBITDA rise but as mentioned already at the beginning of my presentation, we do have these special effects this year, which all finally collect in the operating result and subsequently also in the net income. I keep mentioning this simply because there are some specific numbers, which are more distorting the very positive operational picture of Evotec a bit.

Slide 42: The balance sheet clearly underlines the strategic and operational steps taken in 2017, showing an 88.5% increase compared to 2016 with a balance sheet total of € 667.3 m at the end of 2017. Major impacts came e.g. from the € 90.2 m capital increase with Novo Holdings, Aptuit adding significantly to intangible assets and the goodwill and our equity investment activities also added to our assets. Under liabilities, for the first time, significant debt is recognized in our balance sheet, increasing debt by € 161 m to € 190 m in total, consisting for example of the € 140 m bridge loan for the Aptuit acquisition and the first tranche of the EIB R&D loan which we drew down at the end of 2017. Consequently, the equity ratio changed but remains strong at 49.7%.

The cash bridge as shown on slide 43 nicely summarizes the major positions and events of 2017. We also added a reminder of the major positions at the end of 2016, when Celgene and Cyprotex came in the first time. Just a few numbers to mention here: Capex clearly increased to € 17.6 m in 2017 versus 10 in 2016, clearly mirroring our commitment to state-of-the-art equipment and extension to support our innovation and our business growth. Aptuit amounts to roughly € 250 m equity purchase price consisting of goodwill and fair value of acquired assets. Liquidity position at the end of 2017 totalled a solid € 91 m, leaving us good room to control and to manoeuvre the whole Evotec Group.

As of 31 December 2017, the Evotec Group employed 2,178 people worldwide, this means an absolute increase of 940 employees, or nearly 76% compared to prior year's end, which shows continued organic growth and mainly reflects the significant expansion for the acquisition of Aptuit. Across all sides and functions, both in Europe and the USA, 266 new employees were hired in 2017 to further increase the Company's capacity for innovation and provide best services to Evotec's partners and clients. At 13 sites and 6 countries we have skilled and scientific employees working originating from 60 different nations, which make Evotec a truly international company. We are very proud having this engaged and growing group of colleagues on board, as they remain our major success factor for further growth and development of Evotec in the future. Many of them are with us for many years. I hand back to Werner.

Werner Lanthaler

I have also been with Evotec for many years, one of the 2,178. Let me now guide you to page 46 by rounding this full year information call with an outlook for 2018, which is strong. "3x30" stands for more than 30% growth in Group revenues, approximately 30% growth in our adjusted Group EBITDA, which should be the number to focus on going forward and focused R&D investments of between € 20-30 m for first-in-class innovation. This is a high expectation that we have set ourselves and we are very confident to meet this because at today's situation for our capacities we have the best booking rate in history, so the only remainder for the year that will create volatility is how many milestones will be achieved. And that is the scientific risk which will stay and is good to stay in this Company. On page 47 we want to illustrate to you that sometimes a facelift is a good idea, so we also have given our website a facelift and we are inviting you to visiting us as often as you want, as often as you can to come to www.evotec.com. On that note, please continue to follow us and on page 48 you see the dates that mark our reporting calendar. But you will hear also very often from us in the meantime if we have important deals or milestones to report. With this let me thank you, thank you for following Evotec in 2017 and supporting us for Action Plan 2022. We look forward to your questions.

Operator

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

Falko Friedrichs (Deutsche Bank)

Hello, I would have three questions, please. The first one: Can you quantify the FX impact that you had in 2017 and if spot rates remain where they are at the moment, could you give us a feeling for what we can expect in 2018? Secondly, out of the roughly € 28 m in milestones that you achieved in 2017, could you disclose how many of those you achieved in the EVT Execute segment? Then thirdly, does your 2018 guidance include the expected contributions from the recently announced deal with Sanofi? And can you also share why adjusted EBITDA should not grow more than sales in 2018? Thank you.

Werner Lanthaler

Question 1 I will hand to Enno, question 2 to Mario. Question 3 is very simply answered that today we do not include our transaction with Sanofi in our guidance as it is in exclusive negotiations which we hope to close in H1 2018. But I can already tell you now that we are not intending to put the payments that we are receiving from Sanofi all on the top-line. We intend to put most of that under operating income, because we are building a pipeline of products together here which will be the ultimate value driver from this transaction. On that note let me hand back to Enno.

Enno Spillner

So in total we had P&L expressed FX losses of € (8.7) m, and the major part goes to unrealized FX losses for translational FX effects from currency or from cash held in other currencies like US dollars, which is almost € 5 m, the other significant portion is realized FX losses from inter-company dividend payments, those are the major portions. Obviously, currently with the outlook, the challenge is that we have a very volatile US dollar, which is stronger than expected, and at the end of 2017 it was at about € 1.20, now it is at € 1.24, we are trying to cover that as good as possible right now but it is hard to predict how this will affect our final numbers.

Mario Polywka

Milestone projection, so for 2017 the EVT Execute milestones were approximately 50% of the milestones achieved which is around € 11 m. What you should take from that is first of all the milestones achieved in 2017 went up compared to 2016, and importantly now the percentage coming through from the more mature EVT Innovate programmes that have shown the success of them is now starting to dominate. That of course with the upside in terms of more clinical and milestones in royalties gives us great confidence in delivering for the years ahead.

Werner Lanthaler

Important to add is that our performance-based alliances have certain output goals and what you see reflected in the milestones achieved is especially in the endometriosis collaboration with Bayer. In this collaboration, we hope the output goal of having three targets in the clinic will be achieved in 2018 and with this, we can also declare that a collaboration has successfully ended. We typically end collaborations just on the side and don't report it but this would be just fantastic to see the driver here of the milestones also leading into clinical projects where we then continue to get clinical milestones.

Operator

The next question is from Franc Gregori, Trinity Delta. Your line is now open.

Franc Gregori (Trinity Delta)

I have a number of questions, I will start with two and then come back into the queue, and the two are for Mario: The first is with INDiGO®, now that you have got the processes launched and have everything going through, can you give some colour as to why people are attracted to it? And also, if you can see any differences between what you thought were the reasons they would be attracted to it and what turned out to be the reasons given? Secondly, again to Mario is on Cyprotex, I am very pleased to see that it is performing better than expected. Can you identify why that is? And if the learnings that you are getting from that can be applied to other acquisitions, obviously wanting to know what the effect would be on Aptuit?

Mario Polywka

Thank you very much, it is very seldom that I am asked individually to answer questions so I am pleased and will be hopefully able to meet your expectations.

Franc Gregori (Trinity Delta)

I am sure you will, Mario.

Mario Polywka

Thank you, you are making me blush. Anyway, what we find with INDiGO® and what was a key attraction of the acquisition of Aptuit is this ability to go from effectively getting a pre-clinical development candidate very rapidly into a submission of an IND or CTA or ready for Phase I. We have found ourselves in terms of development of some of our compounds that often you end at discovery phase and then somebody looks up and says right, now we need to make active pharmaceutical ingredients, now we have issues with formulations, and how do we go out and find a CRO to cover this. What we found here with Aptuit is all of these services are first of all under one roof with very experienced people and what we can do, especially with our own discovery projects is start to look at this earlier. So as we go towards but not yet at nomination of our pre-clinical candidate we are able to assess the synthetic attractability of a compound, whether we have formulation issues, whether there is any early tox finding we should use and hence when we do nominate the compound we are ready to go, we have a synthetic process in place, we have people making the API, formulation is being addressed and we are project managing into the various tox species, so this really shortens the timelines and of course it means we are bringing projects to the clinic much more quickly and more efficiently. So it is exactly how we thought it, we are also finding that it is a great attraction from defining early discovery deals because now from the outset we are able to work for our partners on a programme that starts from screening and we will partner with them all the way to the clinic, whereas previously we stopped at the pre-clinical development candidate. So we are finding two aspects of the cross selling there.

Cyprotex has been a great success, yes, and actually what is behind that? Well again, we did our due diligence well and we realized that there were great people involved in the organization. We were able to move them out of old premises into much more state-of-the-art premises, which means that they can deliver more efficiently. We are able to cross-sell, especially with the huge commercial network that Evotec has and we focused increasingly more on strategic selling rather than tactical selling, so I think that we have the balance there. However, primarily I think we have been able to maintain the motivation of a fantastic group of scientists who continue to deliver tremendous data, whether it is on a completely standalone basis or as part of integrated drug discoveries. Therefore, our learnings are as always, it is fundamentally about the people and if the people remain motivated we can introduce them into the Evotec way of thinking and you heard and saw Werner's formula at the beginning of the presentation, and that is really what drives a successful integration.

Operator

The next question is from Igor Kim, ODDO BHF. Your line is now open.

Igor Kim (ODDO BHF)

Hello, I have a couple of questions. First does your outlook include the potential milestone payments from Celgene and from Bayer in the endometriosis collaboration? The second question is: Given the € 28 m of milestone payments that you had in 2017, which was quite remarkable, do you think it is realistic that you will be above that figure in 2018? And the third question is on capex: What we can expect for capex for 2018? Thanks.

Werner Lanthaler

Milestones depend on outcomes of experiments and predicting the outcomes of experiments is not our business. Our business is to run the highest quality experiments, and that is why we are very cautious in giving you a guidance of what the number of milestones it is we expect. However, one thing that we can say is that the portfolio of options from milestones in 2018 is larger than the portfolio was in 2017. By the way, the € 28 m are not milestones only but milestones plus upfronts and licences and we had a certain expectation that is risk-adjusted and probability adjusted in our guidance always in there. But again there will be volatility and we do not know if these milestones are coming, but historical experience tells us that from the pool of options that we have, a certain number should be achieved and they are included in the guidance that you see there. When it comes to the capex question, I hand over to Enno.

Enno Spillner

So in 2017 we had a capex of € 17.6 m, that obviously contains mainly Evotec and only in the last quarter also the contribution of Aptuit. We will continue to significantly invest to stay up to date and state-of-the-art with our equipment plus obviously equipping for our growth as we are growing at different sites. So for 2018 you can expect a significant uptick in this capex as we will have the first year at Aptuit, we also anticipate to grow this part of the organization, so we should be clearly above the numbers from 2017.

Werner Lanthaler

But most of the capex is long-term investments, so a true impact you will see in 2019, 2020, 2021 of these capex investments.

Operator

The next question is from Samir Devani, Rx Securities. Your line is now open.

Samir Devani (Rx Securities)

Thank you, congrats on the results. I am just going to ask one on the CHDI contribution to the results this year, if you could pass us the figures for that and whether you expect renewal at the end of the year?

Mario Polywka

Thanks, of course we do not give individual details of programmes but the CHDI as we have announced on many occasions contains significant programmes, we have more than 50 people working for CHDI and the quest to try and find their cure for Huntington’s and we are very proud to be part of that initiative. It continues through 2018, we hope to give you some more updates of that later on in the year. It is a strong contributor, it is in the single-digit percentage contribution to the Evotec revenues but and in the EBITDA line.

Werner Lanthaler

One thing that we should probably highlight that there is a passion in the commitment between CHDI and Evotec that we will not give up to work on Huntington’s disease until we have a drug and that is the commitment that we bring to this. It is really one of these examples where we do everything in our power to help a foundation fulfil its mission.

Operator

There is a follow-up from Franc Gregori. Your line is now open.

Franc Gregori (Trinity Delta)

Two questions, one maybe for Cord or it may be for Werner: When we look the EIB loan of € 75 m, can you give me a feel for the type of investments that you are going to make? I do not want details as in what but more the magnitude, so is it going to be three at € 25 m or ten at € 7.5 m, that type of thing, and importantly, do you need to have a large stake or would you just take a very small stake in the larger business?

Enno Spillner

So first of all, the volume as a reminder it is up to € 75 m in total over four years and we will try to distribute it within that period. It allows us to invest directly into our own R& D projects but as well as, as you indicate, into equity stakes. So last year and you can see that also now in the report, we drew down about € 16.4 m from EIB, for 2017, and the amount for 2018 probably is in a similar ballpark if you look at our basic R& D expenditures plus some equity. Then it finally depends on the opportunities that you identify on the equity part which we cannot fully foresee at this point in time, if we find new attractive targets that we want to take. The quota will always be 50% that we can draw down into an investment and will be refinanced by EIB. The holdings or the share that we want to have in these companies is definitely in minority shares so we do want not fully consolidate these companies or get full control, but normally stay below 25%, obviously we have some exemptions from the rules.

Werner Lanthaler

I think it is fair to say that EVT Innovate is what we try to leverage, especially with the EIB money and there we see plenty of opportunities so it is more the exception if we go outside and if we do not invest inside into EVT Innovate.

Franc Gregori (Trinity Delta)

Can I follow up on that? If we are to be looking outside, do you ever see a situation in which a fantastic opportunity which takes all of your strategic objectives would make you go into a negative EBITDA?

Werner Lanthaler

We are there, and our only passion and driver is to create value for our shareholders. If we had to change a parameter like that we would do it if this created higher value for our shareholders. At this stage, you see us operating on a big portfolio so that an individual project, which we can drive on variable costs on our platform, is difficult to identify to make us go into negative EBITDA but we would not rule it out.

Operator

At the moment we have no further questions. As a reminder, if you would like to ask a question please press 01 on your telephone keypad now.

Werner Lanthaler

If there are no questions, let me thank you for staying with us for an hour on this. We thought that it would be a longer call than normally but we wanted to provide you with the full depth and the breadth at what is ongoing at Evotec at this stage and as you noticed, there is a lot that is already in the pipeline and there is more to come. Thank you and we look forward to hearing from you soon.

Operator

Ladies and Gentlemen, thank you for your attendance. This conference has been concluded. You may disconnect.