Evotec AG
Transcript of the Conference Call
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Speakers: Dr Werner Lanthaler (CEO), Dr Cord Dohrmann (CSO), Dr Craig Johnstone (COO), Enno Spillner (CFO)

Operator

Welcome to Evotec AG's Annual Report 2019 conference call. May I now hand over to Dr Werner Lanthaler, CEO of Evotec AG, who will lead you through the conference. Please go ahead sir.

Werner Lanthaler

Thank you so much. Welcome to Evotec, this is Werner speaking. We have uploaded the presentation that we would invite you to take on and follow this conference call. If you go through this presentation, you will see that we took a very bold word, and put it on the front page, called Excellence. Excellence is the result of long-term learning processes and consequent execution. As drug discovery and development partnering company, we are striving for excellence in everything that we repeatedly do. So excellence for us is not a single act, but it's a habit. That is what we are sharing and multiplying every day and that is what we try to bring forward to our partners every day.

With this let me introduce my team, who are building a culture of excellence with me here. I am here with my CSO Cord Dohrmann, our COO Craig Johnstone and our CFO Enno Spillner. The four of us will guide you through this presentation, which you see on page 2 with an 'SE' on the top line. This SE marks that we are in the process of converting our legal form from an AG into a European SE legal form of the Company, which we hope to complete in the next days.

If you go to page 3 of this presentation, you see the agenda that we want to go through together with you by starting in showing you some of the highlights that you see on page number 4, that have been achieved this year. We think that we have done many steps in the right direction and it is important that what one counts for us to do many small steps in the same direction, because that is the way to get to a goal that we want to achieve in the long run. The greatest reward for us is the opportunity to do more of what we have started in the last ten years, and to continue this path. It is fair to say that this path is just at the beginning. When you look at the highlights, both segments have delivered extremely well. We have started not only new discovery alliances, but we have also extended our existing alliances. The integration of Aptuit is going in the right direction and you see that many of our EVT Innovate initiatives, highlighted by Cord later on in this presentation, are creating huge upside momentum for this company in the decades to come. When you look at the lowlights, we also want to point out that not everything always works in a company. Sometimes things fail; sometimes things have to be stopped. That is the nature of our business and that is also something that we in all transparency want to share with you.

When you go to page number 5 of this presentation you should see that we have a long-term plan which we call Action Plan 2022. This is the consequent continuation of the path that we have started with Action Plan 2012, Action Plan 2016. It gives us a framework and we can confirm all goals that we have set ourselves within Action Plan 2022 that all these goals are in place and we are either achieving these goals or are in the process of trying to over-achieve these goals. This is our ambition and that is what brings us forward. You have to believe in the long-term plan, but you also have to have short-term successes that reward and motivate you. You have to look at the year 2018 as just one short-term success that we want to share with you, but our plan is to continue and go forward, what you see on page number 6.

Our strategy is long-term, and our strategy is fully intact. It is intact despite the situation that we are preparing for that some cost coverage from our partner Sanofi will be gone in the year 2020. This is just one partnership where we know it will fall away. But the 200 other partnerships that we have built are of course intact and many of them will be added to these that we have in place here. When you look at this long-term plan that we illustrate here we also give you some guidance on the numbers that you can expect for 2019 and going forward. The thing we want to highlight is that we continue to invest into our unpartnered R&D at a higher pace than ever before and that we want to build a company that will stay profitable at every quarter that you will see in the future.

When you go to page number 7 of this presentation you should see that what makes us work and what motivates us are our people. Product successes are successes that cannot be achieved anymore by small groups alone. If you want to win product launches in this industry, you have to align with high-performance teams along the value chain. Together with Evotec, here many things being made possible for our partners because our people are the best in the industry. This is the main reason why we grow, and this is the main reason why we want to attract even more talent going forward and that is the main reason why we continue to grow strongly also into 2019, 2020 and going forward. The megatrend of excellence in innovation is just at the beginning. With this let me hand over to Enno who will bring you into our financials.

Enno Spillner

Thank you Werner and a warm welcome also from my side to the audience today. It is a great pleasure introducing you to our 2018 financials and providing some details on the respective numbers. 2018 once again was financially speaking a very successful year, with new financial heights across various lines in our P&L and balance sheet and also operating cash flow.

On slide number 9, a few comments on our guidance. In 2018, we adjusted our guidance twice to the better, confirming the very positive business performance during the course of that respective year. Once in August, due to the successful acquisition of Evotec ID (Lyon) and the respective change in our expected R&D expenses, which we are supposed to increase due to this strategic move which we took in the EVT Innovate segment. The second change took place in December 2018 after it became transparent and obvious that we most likely would outperform our EBITDA target for 2018, due to the strong business performance leading to increased margin contribution to milestone achievements in the fourth quarter 2018 as well as increased other operating income, due to e.g. research and development (R&D) tax credits. Therefore, in total we clearly over-achieved our revenue

and our adjusted EBITDA targets by showing a growth rate of 42% or even 67%, respectively. Some of you may have noticed that revenue and EBITDA numbers for 2017 have been adjusted quite a bit on this slide on page number 9, compared to the original financials reported one year ago, which is due to the restated numbers in compliance with IFRS 15, which is mandatory for 2018 onwards for your better comparison.

So let's take a look a little bit more into the details of 2018 numbers starting on slide number 10. Revenues increased significantly due to three major effects, namely growth in the base business and an increase in received milestone payments as well as the first full-year cycle of Aptuit contribution, so Aptuit contributing only about four months or four and a half months in 2017. Gross margin is reflecting the adjusted business mix after the addition of Aptuit plus recognising the full-year amortisation of Aptuit and Cyprotex from our purchase price allocations, affecting the gross margin by € 12 m and without amortisation impact, the margin would have been at roughly 33% in 2018. With regard to R&D, we recorded a doubling of our R&D expenses, main reason here is the addition of our Evotec ID (Lyon) activities, added effectively from 01 July 2018 and triggering additional significant R&D expenses of roughly € 12.7 m for this second half year of 2018. We call this part of R&D 'partnered R&D', because these expenditures are being reimbursed by Sanofi during a period of five years. No surprises and no comments on the SG&A, just showing an under-proportional growth compared to all the other key numbers here. Some impact however is on our P&L triggered by the income from bargain purchase, as a positive one-off effect from the Evotec ID (Lyon) transaction when taking over the French legal entity for just € 1 while containing higher cash and some asset positions. Please note that this one-time effect does not go into our adjusted EBITDA but effects the net income only. Other operating income overall was very positively affected by increased R&D tax credits being recognised in Italy, in France and in the UK. One part of this increase is obviously due to a positive one-off effect from tax credits relating to 2016 and 2017, which is approximately € 3.5 m. And the other two major positions within the other operating income were recharges from Sanofi for our Evotec ID (Lyon) activities, as just indicated, and release of our earn-out accruals from a write-off that Werner just described briefly.

On page 11, we take a look at the overall trends of some of major KPIs of Evotec and we can clearly observe that the strongly positive trend has been consistent over the past years and is supposed to be so for the next years to come. The combination of organic growth and strategic growth in particular fueled the growth in 2018, reflecting the first full year of Aptuit while at the same time base business and milestones kept growing as well, thus a broad and solid increase across the different fields. Obviously, we want to continue to walk this strong growth path, also in 2019 by growing Evotec's Group revenues and adjusted Group EBITDA each by approximately 10% growth, while keeping our gross margins stable in the range of or above 30%. You may have recognized that group revenues for 2018 are about € 11.4 m less here on this slide than compared to the previous pages. For better transparency on the net operational growth we excluded revenues from recharges according to our IFRS 15 in this graphic. Also for better comparability, we have adjusted our Group EBITDA here, excluding the afore-mentioned one-off effect of € 3.5 m stemming from R&D tax credits, correlating to the previous years, so being off the reporting period. However, we will revert to a more detailed guidance at the end of this presentation.

On slide 12, there is not too much to comment on with regard to our segments on this page, since most of the growth and one-off reasons have just been described already on the consolidated level. It is the same impacts that we see on the individual segments, gross margin is in particular high in the EVT Innovate segment, again due to the strong milestone

contribution and as the € 15.4 m bargain purchase impact is transaction driven, one-off effect, we did not allocate this to the segments. Other operating income contain approximately € 12.7 m of partnered R&D cost, thus being reimbursed by Sanofi in the context of our new Evotec ID (Lyon) efforts. Please also note a new column in this slide named "not allocated". Revenues shown here in the segment consist of revenues from contracts with customers without revenues from recharges as those are not of importance to the management to assess the economic situation of the respective segments. Thus, segment reporting is not considering revenues from recharges for IFRS 15. However, on the Group consolidated numbers we will of course show financials including revenues from recharges according to IFRS 15.

Last but not least looking at Q4 numbers on slide 13, which clearly underline the continued growth trajectory going forward. Despite seeing less income from milestones in Q4, compared to the previous quarters of 2018, revenues stepped up by 14% due to improved base revenues, while at the same time increasing the gross margin to almost 27%. All Q4 revenues across all segments are considered organic growth due to Aptuit being on board already since mid-Q3 of 2017. Total R&D expenses almost tripled, while € 7.1 m out of the € 14.7 m stated here relate to partnered R&D, again being cost-covered by Sanofi under other operating income. Also increased R&D tax credits fueled our other operating income in Q4, increasing this line significantly to almost € 21 m. All these positive effects resulted in a significant adjusted Group EBITDA increase of 46% in Q4. Thank you.

Craig Johnstone

Thank you, Enno, and good afternoon from me to everyone on the call. It is a great pleasure to join this team at such an exciting time. I would like to bring us to page 15. And this is a diagram that simply represents a reminder of our blended business model to which we offer access to our scientific excellence and create value for our partners and ourselves, whether it is through an fee-for-service model or by means of advancing technologies and assets internally for partnering later. It is our intention to build up a broad, valuable portfolio of co-owned projects, which have built-in quality for survivability to success through the development process. This is what we do.

On page 16 I would like to give you a flavour of how we do it. The product of scientific excellence and operational excellence, excellence squared, is laid out here. Drug discovery and development are still highly human endeavours, requiring creativity, inspiration, innovation. But it also requires expertise and experience and drawing on a long and strong track record to solve some of the more difficult problems in drug discovery and development. These difficult problems typically occur at the interface and require close interactions between scientists of all relevant disciplines to create the conditions for problem solving and inventive step creation. High science and high technology of course have a critical role to play and machine learning, deep learning and artificial intelligence all contribute heavily here. And in addition the humanization of our test cascades are all increasingly important factors when working really at the cutting edge of drug discovery and technology development. Of course all of those great characteristics have to sit on top of a very well-oiled high-performing system of operational excellence, capable of delivering high quality and high speed of results. And successful integration of all these features is how Evotec succeeds in delivering even on the most challenging projects with the highest possible quality, the highest probability of success and the highest speed for our partners. This is in essence our philosophy.

And we think, as shown on page 17, that this philosophy has contributed to a very successful year in 2018. Major new partnerships, such as those named here, Novo Nordisk, Ferring, LEO Pharma, for example as well as an ongoing and extended existing collaborations. Indeed, the number of partners contributing over € 1 m of revenues each, rose by more than 50% in the year and we believe they are unparalleled high repeat business rate of greater than 90% is a testament to the quality and satisfaction and that is true in all our major business lanes.

More specifically on page 18, we see that the integration of Aptuit has completed their abilities for our partners all through the value stream. But very importantly we firmly believe that the ability to anticipate and indeed assess experimentally the potential pitfalls and developments means that we can help our partners create candidates which are more development ready and pass them into pre-clinical regulatory and clinical development stages faster and with less chance of delays later due to technical weaknesses. This theme of philosophy of integration continues into development, as shown on page 19 with our INDiGO offering which was relaunched in 2018.

INDiGO is a fully integrated under-one-roof service, which brings together API formulation, regulatory safety, analytical sciences and very tight project management to enable us to consistently move candidates through to R&D in one year or less which we believe is amongst the best in the industry and certainly superior to alternative distributor approaches. And we are really delighted to see the first examples of internally conducted discovery projects move seamlessly into INDiGO during 2018. We have a very strong pipeline and new opportunities in the coming year. This theme of integration also continues into what we call integrated CMC, page 20, or iCMC, and we have also seen a strong pick-up of this business segment as our partners appreciate the value of core located analytical development, API, drug product and formulation, all of which pointed together to provide the highest quality service. Even in some cases all the way through to commercial product supply in niche indications.

Page 21 simply reflects that we have a very diverse array of really excellent high-quality partners in foundations, biotech, small, medium and large Pharma, and this list grows each year and in additional to the loyal returning partners that we have. In addition, we have seen a more balanced distribution in 2018, approximately evenly split, one third between big Pharma, biotech and foundations and foundations in mid-size Pharma fitting together. In this strong client-based we are set up for continued success in 2019, as shown on page 22, with new contracts and extensions. In addition, following the completion of the scientific integration of Aptuit we have seen a really excellent start to 2019 from that business segment. Looking ahead we look forward to bringing you news of capacity increases to meet increasing demand and fuel further growth, as well as scientific and technical advantages at the cutting edge of drug discovery and development. And in particular the role of advanced computing and artificial intelligence and for me personally AI represents really quite a natural extension of our ambitions to conduct the highest quality work, with the highest efficiency and effectiveness at the leading edge of our industry. The timing is perfect with data increasingly voluminous data and high computational power coming together simultaneously. The ability to augment and enhance human creativity and know-how with the highest quality computational prediction of potentially dramatic breakthroughs and quality in many aspects of drug discovery and development, and we are investing in this field to ensure we are at the forefront of this for ourselves and for our partners. With that

posted outlook for 2019, I would like to thank you for your attention, and I hand over to Cord to talk about the next segment.

Cord Dohrmann

Thank you and good afternoon to everybody on the call. As always, it is my great pleasure to summarize the progress that we have made within EVT Innovate in 2018. As Enno already mentioned, EVT Innovate revenues very significantly increased to € 69 m in 2018. This represents an accelerated growth of revenues by close to 60% and thus another fantastic year for EVT Innovate. The growth in revenues is associated with significantly improved profitability and has been achieved despite € 35 m of R&D investments, the highest level of R&D investments since the inception of EVT Innovate. Even more importantly, though, through EVT Innovate we continue to deliver Pharma partnerships which not only generate R&D payments, but most importantly enable Evotec to co-own drug opportunities whose development is fully financed by our partners.

Our current pipeline of co-owned drug product opportunities is shown on page 23. The pipeline consists of well over 100 co-owned projects, all of which are associated with substantial financial upside for Evotec. This upside consists of potential milestone payments that are usually in the range of € 100-300 m and tiered royalty payments that reach into double-digit percentages of eventual product sales. A key measure of our success here is not only the steady expansion of this pipeline but also the progression of individual projects along the value chain. In both aspects 2018, was a tremendously successful year, as can be seen with the many key highlights shown on the pipeline chart. Unfortunately, we will not be able to go through all of the highlights, but we would like to point out the progress that we have made in clinical stage drug opportunities. Most importantly, our partner Bayer initiated two phased two studies in chronic cough, based on compounds originally identified with our endometriosis collaboration. Furthermore, our partner Second Genome started a Phase II trial in NASH, and we had two additional clinical starts with Bayer initiating another Phase I study in endometriosis and our partner Boehringer Ingelheim initiating a Phase I study in the field of respiratory disease. So in conclusion, 2018 was yet another fantastic year for EVT Innovate. EVT Innovate delivered significantly accelerated growth and profitability, despite substantially higher R&D investments and we expanded our co-owned pipeline more than in any other year and achieved very significant milestone bearing progress in many co-owned projects. In addition, 2018 provides yet another solid confirmation that our EVT Innovate strategy is highly productive and a key value driver for Evotec going forward.

On the next page, page 24, I would like to briefly mention the progress that we have made in all other aspects of EVT Innovate. The iPSC-based drug discovery platform delivered multiple important milestones out of our Sanofi diabetes alliance and the Celgene neurodegeneration alliance. Similarly, we have made tremendous progress in our Bayer kidney alliance with the achievement of multiple important milestones. Furthermore, we built a number of new Pharma alliances; here I would like to mention in particular a new alliance with Almirall in dermatology and a new alliance with Sanofi in infectious diseases. Beyond this we are very proud to have signed two new alliances with Celgene in oncology and targeted protein degradation. Finally, as part of EVT Innovate, we also continue to grow our equity investments strategy as well as our academic BRIDGE partnership portfolio.

On page 25 you can see that our portfolio of EVT Innovate partnership continues to grow and some existing alliances have also grown in scope. Both Celgene and Sanofi are important partners of Evotec, and we very much appreciate the fact that they have selected us for further partnerships. With Celgene in particular, we signed two new alliances in oncology and targeted protein degradation and with Sanofi a new alliance in infectious diseases, a particular highlight was of course our new Celgene partnership in oncology and targeted protein degradation, as this comes with a combined upfront payment of well over $ 65 m as well as substantial upside in terms of potential milestones and royalties.

Moving on to my next slide, page 26, I would like to shift gears a bit and discuss recent investments we have made in platform technologies and give you a bit of an outlook where we are heading with this. With the emergence of new technologies, it is possible to fundamentally change the drug discovery paradigm on multiple fronts. At Evotec, we have decided to invest in a number of these technologies to build a game-changing drug discovery platform that will redefine health and disease and enable more disease-relevant screens and allow a seamless transition from the laboratory bench to the clinic. It is important to stress that these investments should not be seen in isolation. They ultimately combine into one coherent molecular phenotyping platform, which can be used to redefine the diseases and leverage the technology into more disease-relevant drug discovery programmes. This is accomplished through the systematic profiling of patient samples via high-support 'Omics' technologies which generate patient-centric molecular phenotypes and signatures. These molecular signatures in turn can be subsequently used to identify new targets, pathways as well as disease-relevant read-outs and even biomarkers for clinical development. As molecular phenotyping relies on routine use of 'Omics' technologies, this leads to the generation of very large data sets. In order to manage and interpret these data sets it is important to use supporting artificial intelligence and machine-learning platforms, which then help to guide the development of more patient-centric and thus more efficacious drug candidates. Ultimately, these new drug candidates can then be tested in the most relevant patient populations, which are selected once again on the basis of molecular phenotypes. This is expected to substantially increase the rate of successful clinical developments. So in conclusion we would like to make the point that our investments into platforms such as iPSCs, Panomics, artificial intelligence and machine learning are not isolated bets but rather serve a longer-term strategy to build a seamless patient-centric drug discovery platform.

On the next slide, page 27, you can see that we are already well on our way to redefine chronic kidney disease according to molecular phenotypes through our participation in the NURTuRE Consortium. Through this collaboration, we have access to what probably is the largest core board of chronic kidney disease patients. All in all it encompasses about 4,000 patients with complete clinical histories, including drug treatments as well as blood, kidney and urine samples. Evotec will conduct the molecular phenotyping for these patients to build the world's largest molecular phenotyping database for chronic kidney disease patients.

On the next slide, page 28, you can see how molecular phenotyping of patients can seamlessly integrate into screening paradigms using patient-derived cell-based assays which are only possible because of iPSC technologies. We are continuing to build and expand our iPSC-based drug discovery platform and have made great progress in generating new cell types which can be seen on the next slide. These new cell types include e.g. podocytes, which are a key cell type in chronic kidney disease, but also others, such as Retina pigment epithelia cells and programmes that we had under development for quite some time now, are becoming more and more mature. Beyond the podocytes and the

Retina pigment epithelia cells we are particularly excited about the more recent establishment of a microglia platform which allows us to expand our efforts in neuro-developmental and neurodegenerative disorders, where microglia plays a major role.

With the next slide, page 30, I would like to give you a brief update on our infectious disease franchise. In the last few months, we have thoroughly reviewed reprioritized the portfolio primarily focusing now on anti-virals and anti-microbials. Our main focus will be on curing hepatitis B viral infections. Here we are pursuing three independent approaches, all of which are directed to cure HBV infections rather than just contain them. In the anti-microbial portfolio, we had already created two new partnerships, with the Helmholtz Center of infectious disease we signed a risk-reward sharing partnership, this partnership is based on work from the laboratory of Prof. Rolf Müller, and it is focused on developing another class of natural products into broad spectrum gram-negative antibiotics. We are proud and excited about the collaboration with the Helmholtz and in particular with Prof. Rolf Müller. In addition, we recently signed a second partnership with a global antibiotic research and development partnership, also called GARDP. GARDP is co-sponsored by the WHO and the drugs for neglected disease initiative. GARDP is an important element of the WHO global action plan on antimicrobial resistance. This partnership with GARDP has the potential to become highly strategic in nature as we intend to jointly invest into superior platforms and highly innovative drug discovery projects in the field of AMRs.

The following side is just a reminder that our academic BRIDGE strategy is fully on track and continues to strive. In 2018, we have added two more bridges, LAB591 and LAB031. LAB591 is a partnership with a Fred Hutchinson Center of cancer research and Arix Biosciences, a venture investor. LAB031 is a partnership with Sanofi to advance early-stage academic research primarily out of France into full-fledged drug development projects.

Finally, on page 32 I would like to end with an update on our equity strategy, which is becoming an increasingly important component of our co-owned pipeline building strategy. We have been able to raise very significant follow-on rounds for a number of our portfolio companies such as Facio or Exscientia, and other companies such as Haplogen and Fibrocor have signed significant Pharma deals. So also here we are very excited about the progress and expect to expand the strategy going forward.

On my last slide, page 33, I would like to give an outlook of what we can expect for 2019. Looking forward we expect another excellent year, as we have already achieved quite a few important milestones in 2019. In particular we intend to further expand our pipeline of co-owned product opportunities through new partnerships, we expect significant progress on projects in our current pipeline, and we intend to initiate new academic bridges and invest into spin-outs and start-ups. So in conclusion, 2018 has been yet another fantastic year for EVT Innovate, we firmly believe that our strategy of building a co-owned product pipeline Is still only at its very beginning and we are very proud and very much looking forward to an exciting 2019. With this, I would like to thank you for your attention and hand over to Werner.

Werner Lanthaler

Thank you so much. Bringing all of this together, and summarizing this, should bring it to the outlook for 2019 going forward. I think it is important to stress, as you see on page 35, that it is a strong year ahead and that the state of the Company is strong. But it is just how

Cord already framed it, it is the beginning of a longer path that we are on, but we are happy to announce at this stage that we expect double-digit growth on our revenues with approximately 10%, we expect approximately 10% EBITDA growth, we have to take into account the one-time effect that you saw in 2018, so the number to compare to here is € 92 million, and very importantly, we are increasing our focus unpartnered investments to about € 30-40 m, in order to create long-term upside value for the company and for our shareholders. With this we want to round up this tour de raison of our 2018 and want to thank you for following Evotec, for supporting us and we want to thank you for continuing the support that you bring to this Company. Thank you so much and with this I hand back to the operator and we are hoping for your questions.

Falko Friedrichs (Deutsche Bank)

Hello, thank you for taking my three questions. Firstly, can you give us an idea of the timeline for potential partnering of these other indications on your iPSC platform. Secondly, can you share how the integration of the infectious disease unit from Sanofi is progressing? And whether the pipeline projects there are also progressing in line with your expectations? And then thirdly, on M&A, is this still a focus for you in 2019? And can you share which areas would be of most interest to you when thinking about potential additions?

Werner Lanthaler

Thank you, I will take the third question on M&A, question number one on future partnering out of EVT Innovate I will give back to Cord and also the integration of infectious diseases I will give back to Cord.

When it comes to M&A, you should always also look here at the long-term view of this Company that in the last ten years we have done nine inorganic steps in our growth. Continuing this seems logical, especially in the light of the ability to better understand what it takes to make long-term successful integrations. And here, as we all know, not all M&A transactions on the planet always have a positive outcome, but I think our learning curve in what it takes to make successful integration is a very good one and that is why I think we are a Company that is a good home for M&A transactions to be done. Having said this the focus areas are clearly here to get stronger in what we already do.

That is the first thing, and what we do is integrated drug discovery projects, integrated drug discovery projects translating into development how we have shown this with INDiGO and development aspects. Adding to that to make the value chain more complete was I think a very important step. Broadening this to having more modalities on the platform is definitely one priority that we set for 2019 and 2020, this goes into expanding e.g. our cell therapy approaches, this goes into expanding our biology/antibody approaches, this goes into expanding our approaches that we do in all modalities. So that is one aspect. The other aspect is something where I think taking on more co-owned projects in the formats as we have done this is something when projects fit to our areas of strengths, there is almost no limit of how we could build this on our platform, I think that is why we are staying very picky, staying only for high-quality assets here, but we never exclude moves that we can do here. Question one and two back to Cord.

Cord Dohrmann

Thank you for your questions. So in regards to the timelines on potential partnerships for iPCS-based alliances, this is a tough question to answer. Essentially at this point in time we are still very much focused on delivering on our existing alliances and we would argue that we do this quite successfully as you can see through the various milestones that have been achieved in those partnerships. Beyond that, we have actually expanded these partnerships, so both the diabetes as well as the neurodegeneration partnerships with Celgene a couple of times because they have essentially added to existing partnerships and that is essentially an expansion. We have laid the groundwork I would say for multiple additional partnerships here and we do have a number of discussions with these, but when exactly they will come to fruition is hard to predict. On the integration of our infectious disease unit in Lyon we have made great strides forward here and I would say in many areas are fully on track on bringing really new platforms to the field of infectious diseases. And without going into too much detail I think you will see that especially when we are going to talk about in the future our HBV portfolio, these are going to be new modalities, these are going to be new approaches to old problems and they hopefully will come to highly innovative solutions to these old problems.

Joseph Hedden (RX Securities)

Good afternoon, thank you for taking my question and congrats on your strong results. First of all, could you give us an idea of what the R&D tax credit level going in the other operating income line in 2019 might be? Second question – I was wondering if you could give us an idea of whether INDiGO is going in -line with your expectations? Could you possibly disclose what proportion of the Aptuit revenues you got from INDiGO in 2018 and what the long-term target is? And then finally, you have spent a lot more in capex this year, just want some guidance going into 2019, if possible? Thank you very much.

Werner Lanthaler

Pleasure, R&D tax credits will go to Enno, INDiGO integration will go to Craig and reason for capex expansion is directly here with me, because that is just a reflection of our footprint expansion, and it is the reflection of our total commitment to high-end technology. Therefore, you should expect us to continue our capex investments; you should expect us to continue our capex investments however necessary to deliver excellence, but the level that you should plan for is at the same level and above of what you have seen this year. R&D tax credits to Enno.

Enno Spillner

Yes, pleasure Joseph, so for 2018 we have seen more than € 24 m in R&D tax credits in total across both segments, please bear in mind, I have referenced during the call due to the one-off effects of roughly € 3.5 m that came from 2016 and 17 and for 2019 you probably could expect a number that is kind of similar to what we had in 2018 in total.

Craig Johnstone

Thanks for the question. INDiGOs as you will appreciate are really a critical part of the transition between drug discovery and development, very attractive to be able to have that picked up and handed over, especially to biotech companies, and those biotech companies are exactly the ones who really appreciate the intellect and the capability that we bring to that part. It has gone very well, we have our own fifteen parallel INDiGOs at any one time on the platform, and I would say that is fully in line with our expectations at the beginning. The impact of how much that contributed and also the impact on the customer mix is evident in the annual report. The proportion of biotech companies in our business mix has increased compared to previous years.

Brigitte de Lima (Goetzpartners)

Good afternoon. I have got three questions if I may. The first one would be going back to what you have just talked about, the biotechs. 2018 was really an exceptional year when it comes to venture capital funding and also funds raised by some of the leading funds in the field, and it seems to me that you must have benefited based on what you have just said, but could you just confirm if you have seen that trickling into Evotec and also if that trend seems to be continuing in 2019, where you see very strong demands from biotechs, which have been raising a lot of cash in the last year? The second question would be on your machine-learning tools and we have talked a lot about this, but the feedback seems to be that it is still early days, you were very discrete, there is a lot of expectation, some people more positive than others. And you are still working on the first programme that is meant to hit clinical development in the next year or so. If you look longer term and say once you have got the first couple of molecules out of the way, what are your realistic expectations in terms of the gains you might expect to see with regard to three parameters, i.e. duration of the discovery process, percentage cost savings you may see per molecule that makes it accessible through discovery, and then thirdly increase in the likely chance success because I think it is why you do machine learning and that is the type of improvement that people are looking for by using these tools. And the last one, an easy one, just going back to M&A, although it was a pretty big acquisition on February when your competitors Charles Rivers bought Citoxlab – perhaps one of the largest remaining private companies in Europe in the early-stage field, is this one you looked at? Would there have been a good fit with Evotec or was it too much animal work and not really on your radar at the time they looked to sell? Thank you.

Werner Lanthaler

The third question I can answer immediately, every acquisition that we wanted to make, we made. Others we do not make. On your first question, biotech funding is a very clear mega-trend which we are benefitting from, it is also something where we are increasingly seeing not only that the funding trend is continuing but what is more important than that is that the business models that risk capital is putting behind science is changing towards increasingly virtual models. And that is where the efficiency that our platforms provide to create data points really kicks in. And that is where you see I think again the value chain changing into a model where positive data points are supported with a lot of capital which is available very fast and negative data points should be shut down. Providing this capital elasticity format for data points, that is exactly what Evotec does and that is why it is so

appealing for risk capital to put it behind these models, and that is why biotechs, who work that way are the companies that are highly attractive also for then Pharma partnerships or Pharma acquisitions because they come with data points but not with fixed costs. And that is what you have seen in the recent 12 to 18 months, that many of the biotech companies that worked with Evotec have been very nicely built into the pipelines and acquisition portfolios of large Pharma companies, and that I think is feeding also the success that these venture capitalists then have and that ultimately is the argument for them to raise the next rounds. So to make a long answer short, we always see a stop and go a bit on the public capital market, but I think for the private capital markets, especially out of the USA, we see a clear go-ahead for more venture-based funding than ever before into 2019, 2020, 2021 and we will benefit from that. On the three parameters of AI, that is the core numbers that Craig is asked every time.

Craig Johnstone

Hi Brigitte, the questions you asked are quite literally billion dollar questions, aren't they? As you said, the approach that we are taking is to be targeted and quite focused in the areas that we invest in, because there are many areas that one could think of applying AI and machine learning right across the value chain, and then the problem becomes one of choice, about where to invest and so we have been very pragmatic, very targeted and placing our AI investments in areas where we really feel that there's a major inflection game. In terms of the answers to your questions I would say that even in the near term, and by that I mean in the next two to three years, I think what is realistic and reasonable to expect is that the duration – you asked about duration, you asked about cost and you asked about probability of success. I would say it is quite reasonable to hope and expect that the duration of drug discovery projects from a standing start to IND submission could be consistent with delivered at less than three years. If we apply all that we have even in front of us today, in a tight well-executed and most advanced method. And that in itself would probably provide cost-savings of substantial proportions, 30%-40% per candidate would be realistic. But as you say, really the highest opportunity for gain is actually in adjustments of probability of success, because as we all know the median attrition waited cost of portfolio execution is actually in failure rather than the successful projects, and therefore the inflection that we can bring to bear is really our own probability of success, and this is why Cord and I are both very much of the view that the integration of the translational power with machine learning on the interpretation of the data is actually where we will make most gains in terms of prediction of clinical outcomes and probability of success, both for efficacy and for safety. Those are the big value drivers.

Victoria English (MedNous)

Yes, I have three questions. The first concerns your opening remark about the SE designation. Can you first tell us if there is any operational impact that that will have on Evotec? The second question concerns your comment about your partnership with Celgene, which you describe as a targeted protein degradation project. Are we talking about misfolding of proteins, that is a technical question. And the third question is a bit more open ended, and that concerns your comments about molecular phenotyping which sounds very interesting. Where would you see this application in your Company first arise? Is it in the drug discovery segment or is it in the conduct of your clinical trials in terms of choosing patients? Where is this going to have its first impact?

Werner Lanthaler

Thank you so much Victoria, good to hear your voice yesterday in Vienna, today in Hamburg. Question 2 and 3 Cord will take, question 1 is very simply answered: There is no operational impact that we expect from the SE conversion, it is truly a simple reflection of our footprint that we want to really go to a more European operations here and also European jurisdiction here with large operations in France, in Italy, in Germany and in the UK, SE is really what should be the legal form that we have here. Nevertheless, of course, we have big operations in the USA as well and we continue to grow in all these sites, but SE now seems to be the most appropriate format for us. Question 2 and 3 I hand over to Cord.

Cord Dohrmann

Thank you. So the Celgene collaboration is really a collaboration that is very systematically explores opportunities for targeted protein degradation, which means really the specific degradation of individual target molecules that are of therapeutic value. And this is a more recent approach that has emerged in academia in the pharmaceutical industry that it is actually possible to direct certain proteins or targets for degradation for very specific degradation, and thereby achieve potentially enhanced effects or target proteins that are not addressable or tractable via small molecules or other means. So this is a very exciting field for us, this falls under the bigger heading of protein and homeostasis to really recognse and correct potentially disease relevant situations where mutant proteins are either over-expressed or wrongly expressed or misfolded, all of that could fall into that, absolutely. When it comes to molecular phenotyping and where it will have its biggest impact that is very hard for us to say. We are using or implementing molecular phenotyping in various settings, we are using it for the redefinition of disease, as I mentioned in the context of chronic kidney disease to really define kidney disease, chronically diseased patients, particularly in a more specific fashion. We use it for screening, campaigns to actually get more out of our screening campaigns in terms of information, what individual compounds profiles look like in terms of potential efficacy and safety, and we are also exploring opportunities here to then use molecular phenotypes to devise biomarkers for clinical development. The immediate impact is probably most strongly felt for us in drug discovery and screening space but going forward the other areas could be just as well the cutting edge of this.

Mick Cooper (Trinity Delta)

Hi, good afternoon. I have a couple of questions. When you are looking at making investments, can you give an indication of what your targeted ROI that you are hoping to achieve is on your investments, and I appreciate that it is fairly early, but could you give us an indication of whether or not you are tracking towards achieving that? And secondly, you have got an increasing number of iPSC protocols now of either done or in development. If you cannot find a partner to use those iPSC cells, might you use them to develop drugs yourself and how far might you take those drugs?

Werner Lanthaler

Thank you so much. The return on investments for our Evotec venture investments has to be 100% aligned, what the risk/reward profile of such an investment represents. And there

are different risk reward profiles, but in our industry it has to be venture return like investments that we are doing here, I think that is an answer where everything has to go way beyond 3X expectations. The second thing that you should see here is that we never wanted to be a financial investor, because bringing finances to bear is almost like a commodity. What Evotec does is that we bring platforms to work. What essential progress really means is that you can make projects better by linking them up with our platforms. And that is the key that ultimately makes these projects better and allows them to continue on these platforms into INDiGO projects and into early development projects, that is also I think a key feature of the investments that we do to allow these our companies within this environment. And when it comes to projects that are not partnered or not partnerable, I think here you do not know Cord well enough that there is a very clear stop/loss logic in our Company, that we would never go forward by default, because we do not find a partner and then all of a sudden by accident or end up developing products. So I think that is very important that we look at it the other way around. That we have a platform, and on this platform we can bring products forward, into the clinic, and therefore there is a seamless path that these projects can be supported on but this path is not supported by default. This path is supported by enthusiasm that we have for these projects, and if these projects on their way bring a term-sheet, every term-sheet is evaluated, if it is better for us to partner or to wait before partnering. As Cord has mentioned, at this stage thank God there is no shortage on partnering interest, especially when it comes to our iPSC platform.

Naresh Chouhan (Intrinsic Research)

Firstly on R&D, this year we are expecting if you strip out the infectious disease payments, the underlying R&D growth I think is around 50% growth. Can you help us understand what that is being spent on? And how do we evaluate the expected returns from this kind of material growth and presumably that growth will continue, so are there things moving into late stages, are there new assets going in there, and are there milestones associated with this? It would be helpful to have a feel for that. Secondly on a kind of bigger picture question. The business is getting increasingly complex now with 100 co-owned products, four BRIDGE investments and obviously your technology platform like iPSC, which themselves have an inherent value. What do you feel the market is missing in terms of inappropriately valuing Evotec and your thoughts on that would be helpful? And then thirdly, do you feel that the lack of material manufacturing capability, particularly on the biologic side is potentially limiting the ability to sign new customers, either in EVT Innovate or EVT Execute? Obviously there is a move in the market to be fully integrated, it would be helpful to understand your thoughts there. Thanks.

Werner Lanthaler

Question 1 Cord will take on R&D growth dynamic and what is behind there. Question 2 on complexity, I think the easy answer here is that it is not complex at all. Evotec is razor-sharp focused on drug discovery and development where the platform that we bring to work is always the same. The only thing that we do is we sometimes change the business model behind the platform, but the processes behind it are always the same. And that is why for us it is not a lot of complexity to run that platform, it is not a lot of complexity to even grow this platform, because it is a very clearly defined scalable process that is the underlying platform. I understand that from the types of arrangements that we bring to the public it might appear complex, but that complexity has to be translated into tailor-made, because

we respect the best business model for our partner and bring the best business models of our partner along the platform, and this can be a risk shared alliance, this can be a service alliance, this can be a BRIDGE alliance, this can be whatever, it is tailor-made. But there is no complexity that is not something that is completely under control when it comes to the platform. And on the multi-modality of discovery projects, that has to be put to work today, I think you make an excellent point because none of our partners today says please discover an antibody for us, or please discover a small molecule for us, or please make a secreted factor or please make a cell therapy. Everyone wants to have the right modality applied for a disease area where people are focused. So being here in the early-stage drug discovery arena multi-modality oriented, that is what Evotec is gives us a very, very good starting point and allows us many good discussions to have with our partners, which if they would go to single modality companies, they could not do. And expanding on this multi-modality, especially also into larger molecules and other modalities, is of course core of our strategy into the next years to come.

Cord Dohrmann

The question on our increased R&D spending growth in particular in the platforms that I mentioned, so here we continue to invest in molecular phenotyping, here increased investments into molecular phenotyping of patient populations. We continue to invest in iPSC technologies, and platforms that we continue to expand here, we continue to invest in our panomics efforts, which means the high-throughput application of 'Omics' technologies to the drug discovery process, right from the start which transcriptomics protein screening all the way to hit-to-lead and lead optimisation programmes. And on the basis of these platforms we have individual drug discovery projects that we run in order to first of all demonstrate that these platforms are highly productive, but on the other hand to create assets that can be positioned for more advanced partnerships. The expected return for these investments is relatively simple, what we do expect are deals where we through upfront payments payments, recoup our investment and through the upside in terms of research payments, milestones and royalties will get a multiple on our investments back in the future as these collaborations progress.

Werner Lanthaler

If questions arise, please don't hesitate to send an email, mine is on page 43 of this presentation, or send an email to Gaby Hansen or Katja Werner, we are happy to bring this forward to you. Thank you for following Evotec, I hope to hear from you soon, at the latest at our Q1 report, which will come in May. Thank you so much.