Evotec SE
Transcript of the Conference Call
First nine-month 2019 results, 12 November 2019 – 2.00 p.m. CET

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

Operator

Thank you, ladies and gentlemen. Welcome to the conference call of Evotec. At our customers' request, this conference will be recorded. After the presentation, there will be an opportunity to ask questions. May I now hand you over to Dr Werner Lanthaler, who will lead you through this conference. Please go ahead.

Werner Lanthaler

Welcome to our Q3 analyst call. Winning the race for a new drug requires strong partners to come together. Evotec is providing the autobahn where innovation and efficiency meet. With this welcome again. We have uploaded a presentation for this Q3 call, which is available on the Internet and on this presentation you can follow this conference call. My name is Werner. I am here together with my team, which you see on page number two of this presentation: Enno Spillner, our CFO, Craig Johnston, our COO and Cord Dohrmann, our CSO. Building and expanding this autobahn brings us together under the vision of Evotec, research never stops until all diseases are curable.

If you go to page number four of this presentation you see the list of recent highlights illustrates that the megatrend for external innovation is in full play and clearly even further accelerating into 2020 and the years to come. My team will give you further insights but here are some recent highlights. Multiple strategic drug discovery and development alliances mark Q3. The successful progress of our pipeline makes the strategy to co-own assets even more visible. Important milestones show the progress of our fully invested partner portfolio, which consists now of more than 100 projects. "Just - Evotec Biologics" has been a great pleasure to integrate into our Evotec family. The multi-modality of our autobahn discovery and development platform is a key competitive advantage, which we see evolving. The extension of our iPSC platform alliance, together with Celgene for another two years, triggered a $ 30 m payment. Within that joint venture together with Vifor Pharma a new pipeline of targets will be most efficiently progressed to innovate the world of nephrology. Precision medicine has become even further reach with our initiatives in women's health with Celmatix and in oncology within Indivumed. We are very happy about the first BRIDGE in Israel and the expansion of our equity-based co-ownership engagements. And last but not least, we are very motivated to expand our leading position in infectious diseases with multiple alliances.

If you go to page number 5 and you translate this progress into our financials, you can see one thing: our financials are strong, will continue to be strong and already today look very strong into the year 2020. Our financial key performance indicators continue to look very good. And today already we can give you a very optimistic outlook into 2020, as our long-term order books look very strong. Backed by a very good Q3 result, which you will see and the strong underlying business and possible milestones that we see coming in the remainder

of the year, we increase our profitability guidance for this year. We now expect the adjusted EBITDA to improve by approximately 15%, which initially was standing at above 10%.

If you continue to page number 6, we are just at the beginning. If you build the autobahn, you cannot think short. Our strategy is supported by several megatrends that will define our industry in the next decades. Capital elasticity, multi-modality, precision medicine, just to name a few drivers. Creating a highly efficient shared infrastructure and investing to build our co-owned assets is unique and marks Action Plan 2022, which is progressing very well and in some parts is even ahead of plan. On page on page 7, let me just give you a quick reminder what we started with Action Plan 2012, which we initiated in the year 2009. For about 10 years ago. We wanted to build the best fee for service platform in the industry. Excellent customer feedback and the great retention rate of our partners confirms that we have already come a long way along this strategy element; with investments into our own R&D we have started to build our own and co-owned assets, also in the year 2010, 2011, 2012. Here, the coming years will show you even much more clinical visibility of these assets that have been initiated about 5 to 10 years ago. So it is fair to say that today with about 10 clinical assets, more than 30 preclinical assets in more than 50 already partnered discovery assets and significantly more than 10 unpartnered assets, we feel very strong on the path for the next years. This is the core of Action Plan 2022.

Page number 8 shows you we have filled one completely focused platform. But we have always been open for the best business formats for each of our partnerships that we have built. We built fee for service projects, performance-based alliances with milestones and royalties. We just recently have announced another outstanding spinoff company called Breakpoint Therapeutics, and we recently also built a joint venture in kidney diseases together with Vifor Pharma. These are very good examples that illustrate how we can optimally participate in our R&D successes into R&D successes of our partners. With this, I would like to hand over to Enno.

Enno Spillner

Thank you, Werner and a good afternoon or good morning respectively from my side of the world. And I will now guide you through our very positive nine-month or Q3 financials as Werner already indicated. On page number 10, we can report excellent numbers for the first nine months of 2019 and revenues and adjusted EBITDA are both exceeding our initial budget and these numbers confirm Evotec's broad growth across all units. Revenues increased by € 43 m or 16% to € 321.4 m compared against the first nine months of 2018. These numbers consider the contributions from "Just - Evotec Biologics" of € 10.4 m for the third quarter of this year, base business in general and in particular at our site in Toulouse carried strong revenue growth and so overall you can really see that all the different parts contributed to the overall revenue increase across Evotec. The gross margin improved to 30.7% and I will come back to the details on the next slide. R&D expenses increased as forecasted to more than € 40 m, thereof unpartnered R&D expenses amounted to € 25.7 m, previous year was at € 16 m for comparison, and partnered R&D expenses amounted to € 15.6 m, the latter being reimbursed predominantly by our partner Sanofi ID Lyon and under other operating income.

The increase in SG&A expenses to € 46.2 m is mainly based on the overall organic and strategic company growth and compensating staff increase, upgrading of our systems consultancy fees in context of acquired companies like e.g. Just and equity engagements that we conducted over the year. The operating income increased from € 26.3 m to € 47.1

m, mainly due to the reimbursement of R&D expenses related to our ID Lyon activities as described in the previous quarters and the other major impact within this P&L line are R&D tax credits, which amounted to € 19 m and increased in line with the growth of our business originating from France, Italy and the UK. The operating income decreased by € 13.1 m compared to the previous year, 2018. Two one-off effects have to be mentioned in this context, which explain this reduction; in 2019 higher impairment charges in the amount of € 11.9 m were recorded due to the termination of our asset SGM-1019 and 2018 included positive one-off income from bargain purchase of € 15.4 m related to the acquisition of ID Lyon. In consequence, the adjusted EBITDA increased very successfully by 36% to € 93.2 m. This number was also positively affected by the new accounting rules, according to IFRS 16 with reference to operating lease mainly which we implemented from January 2019 onwards and which amounted to € 10 m roughly. Excluding the IFRS 16 effect, the adjusted EBITDA amounted to € 83.1 m and increased by € 14.4 m or 21% compared to year to date 2018 due to the strong top line growth.

On Slide 11, this shows the trends in revenue and gross margins. And here, total revenues increased significantly. Our base revenues grew significantly by € 48.2 m to € 299.0 m and despite the fact that milestones upfront and licenses year-to-date are reduced compared to 2018. "Just - Evotec Biologics" alone, as I mentioned before, contributed € 10.4 m to the base revenues in its first quarter being with Evotec, and the impact from IFRS 15, so the new regulations on revenue recognitions on year-to-date 2019 amounted to € 10.6 m euros. 2018 revenues, by the way, were restated for the IFRS 15 purpose by € 8.1 m for your better comparison. The gross margin improved from 30.1% to 30.7% and resulted from strong base business and a good capacity utilization in particular in drug discovery and in our large sites like Toulouse, Verona, Hamburg, Germany and Abingdon. Furthermore, foreign exchange movements contributed approximately 1% positively to our margin. On the reverse margin was negatively affected by lower milestone revenues, amortization resulting from acquisitions as well as IFRS 15 material charges, which added revenues at very low margins and therefore are a burden to our overall margin.

Page 12 is the view on the third quarter only, financially, Q3 was a strong and solid quarter, which mirrors the positive development of the year. Revenues were positively affected by multiple business trends, as described just for the full year in parallel. Gross margin trailed behind previous years Q3 due to a lower level of milestones, particularly in Q3 and the net income 2019/2018 should not be compared directly because 2018 included the bargain purchase, which I just described of the acquisition Evotec ID Lyon of € 15.4 m. Furthermore, the net income decreased due to the higher deferred tax expenses. And in that regard, an update note on the numbers we presented in the presentations today to you, we recognize there has been a transfer mistake of some numbers on the net income line and the net income line for Q3 2019 should state € 19 m instead of € 12 m, and the delta then to the previous year should be minus 45% instead of minus 64%. This mistake is only shown in the quarterly numbers. This is not a mistake in the year to date full nine-month numbers. We apologize for this transfer mistake and we will update our presentation accordingly on our homepage.

The segment P&Ls on page 13 underline that both business segments EVT Innovate and EVT Execute are on track and growing strongly. Once again confirming that we experience a broad and solid growth within the Evotec group. EVT Execute revenues increased by € 53.7 m or 21% to € 308 m versus the previous year. This includes intersegment revenues of almost € 60 m and with increased efficiency, high utilization and focused cost management, the adjusted EBITDA improved even by 57% to € 97.4 m. In EVT Innovate, revenues also grew

by € 10.4 m. The increased R&D investments and both partnered and unpartnered R&D reflect our strong commitment into our co-owner strategy and our long-term value generation and sustainability. The adjusted EBITDA was slightly negative with € -4.2 m compared to € 6.6 m in the previous year. And with that said, I hand over to my colleague Craig Johnstone, who will guide you through the scientific and the operational performance of EVT Execute.

Craig Johnstone

Thank you Enno, and good afternoon to everyone on the call today. Together with Cord I'll guide you through the scientific and operational performance. Page 15 represents EVT Execute, the highest quality sharing economy solution for our partners in drug discovery and development, but maintaining a high performing and flexibly accessible platforms, our partners can tap into what they need with the highest confidence. This is one of the core elements of the autobahn that Werner mentioned earlier. As a result, I am pleased to report another quarter in which we forged new partnerships and made scientific strides forward with existing partners. The continued strong demand and efficient utilization of our platforms has resulted in an improved gross margin of 28.3% year to date, compared with 24.6% in the same period 2018. To focus on two highlights in particular. We were delighted to announce a new performance based strategic partnership with Takeda, successful projects in this partnership will contribute to co-owned pipeline and have the potential to attract to up to $ 170 m and milestones and royalties. Second, our discovery partner for some years Aeovian Pharmaceuticals, recently raised $ 37 m to further develop the lead asset which Evotec discovered and co-invented. We are really delighted and proud that this technically challenging project has been successful in our hands and has transitioned smoothly into development at Evotec. The scientific success attracted a milestone payment as well as an equity award. In small molecule development, the Italian regulatory body granted our Verona site the license to provide commercial drug product. And this extends our offering and supplements our high-quality integrated CMC service. On Slide 16 you can see that we continue to enjoy a well-balanced portfolio of customers with a very high return rate. And they're from all over the drug discovery and development world.

Page 17, we come to one of our major events in Q3, and that was the completion of the acquisition of Just Biotherapeutics. And we've been working together very constructively on the integration and the planning, the next stages of future development of "Just - Evotec Biologics". The value proposition and the force field in which "Just" was founded are really a perfect fit for Evotec. And we firmly believe in the need for continued technological developments in this field. On page 18, we list some of the highlights of "Just - Evotec Biologics" successful first quarter in the group. In particular, the licensing of a biosimilar asset to Biocon has delivered not only a financial contribution but provides the first example of a biologic to enter the Evotec co-owned pipeline within a partner's development portfolio. I am pleased to announce that Jim Thomas and his team are preparing a webinar to provide more detailed information for you to hear more about how the integration of advanced computing and machine learning for prediction of micro molecular properties, rapid experimental verification and subsequent control of production, quality and speed is revolutionizing biologics production. We are very excited about the future prospects, the potential scientific synergies and the realization of a multi-modality co-owned pipeline, which this acquisition brings. With that, I hand over the next part of the scientific segment to Cord.

Cord Dohrmann

Thank you Craig. Good afternoon to everybody on the call. Within EVT Innovate we combine pipeline building with high value pharma and biotech partnerships, which provide enormous financial upsides for Evotec. These partnerships, which come with significant co-ownership of assets, are designed to provide the most effective and efficient discovery and development path, as well as eventual market access for drug candidates. Thus, through these partnerships, Evotec has the opportunity to profit, not only through research and development payments, but also the achievement of development and commercial milestones as well as ultimately royalties from market sales. Supported by strong Q3 numbers in 2019, we expect EVT Innovate will have yet another great year of highly significant growth. In the first nine months of 2019, we have made excellent progress on all fronts with a key goal to expand and accelerate our co-owned product pipeline. Most importantly, our pipeline continues to grow and progress at all stages. On page 19, we just wanted to briefly mention a few highlights. We are very excited about the signing of an early extension of our Celgene neurodegeneration collaboration, which started in 2016 and will now last until at least 2023. We signed a new research agreement with Celmatix to access real life data in women's health as a basis for drug discovery, but also clinical development. We formed a JV with Vifor Pharma in nephrology to jointly mine our nurture kidney disease database for new drug targets and to develop them jointly. Finally, we continue to build partnerships in the infectious disease space, which provide significant financial support to bring highly innovative approaches in AMR and anti-microbial resistant, but also other areas forward. All of these achievements support the further expansion and development of our co-owned product pipeline, which is shown on the next two pages. Page 20 shows all the clinical and preclinical stage projects whereas Page 21 gives an overview of all discovery stage projects. We already reported that the achieved clinical proof of concept with our P2X3 antagonist program currently in phase two studies in chronic cough together with our partner Bayer in the last summer. We expect to report further progress within the clinical stage pipe in the fourth quarter of this year and early in 2020. In the third quarter of 2019, we made significant progress in the expansion of our Discovery Stage pipeline, which is shown on page 20. All of our efforts here continue to be focused on building the leading position medicine discovery platform of the industry, and in the interest of time, I will skip forward to Page 21 to discuss our most recently announced joint venture with Vifor Pharma in chronic kidney diseases.

As we discussed in previous calls, we are continuously building a drug discovery infrastructure, which is uniquely suited to serve the megatrend of precision medicine in the pharmaceutical industry. There are three key components of such an infrastructure. First of all, patient databases that include not only clinical endpoints, but in addition, molecular profiles such as genome sequence as well as transcriptome and proteome information on affected tissues. These databases enable patient stratification according to molecular mechanisms rather than symptoms, and the identification and validation of novel targets for disease modifying potential. The second component are patient derived disease models, which most likely come from our iPSC technology. These allow testing of the relevance of targets and compounds in patient specific manner in the preclinical setting; and the third component are high-throughput screening platforms that allow the molecular profiling and using of Omics technologies of patient tissues and patient derived disease models at high throughput and efficiency. Here we have built and continue to build our Panomics and Pan Hunter platforms which are focused on Omics data generation and interpretation respectively. For chronic kidney diseases, we are cooperating with the World’s largest kidney patient base databank, bio bank which is called NURTuRE, which stands for national unified renal translational research enterprise. NURTuRE is a UK based non-profit organization involving charity, academia and industry and under the Strategic Oversight and Management of the Kidney Research UK. It is a unique kidney Bio Bank for Chronic Kidney Disease and the nephrotic

syndrome covering England, Scotland and Wales. The Evotec NURTuRE database will ultimately include close to 5000 patient samples comprising plasma, tissue, urine as well as DNA. Evotec has secured comprehensive industry rights to patient derived bio samples to conduct Omics analysis for in-depth molecular profiling, which will be the foundation for the identification and validation of new targets for kidney diseases. The recently announced JV between Evotec and Vifor Pharma is a joint effort to mine these databases for new target and biomarkers. Vifor Pharma is a great partner as Vifor is already a global player in the kidney disease market and has ample clinical development expertise, which complements Evotec's drug discovery and early development capabilities perfectly. Vifor will fund this JV initially with € 25 m with the goal to bring programs toIND filing; further clinical development can then be financed for individual assets either jointly or by Vifor.

We are very excited about the opportunity of working together with Vifor, a highly dedicated global player in the kidney disease field, and believe that this could be a blueprint for similar collaborations in the future.

On the next page, page 23, you can see another example for our commitment to precision medicine, this time in the area of women's health. In the area of women's health and in particular the field of polycystic ovary syndrome we decided to collaborate with Celmatix. Celmatix has built the world's largest patient database for women's health with a focus on fertility disorders, including polycystic ovary syndrome and endometriosis. Together with Celmatix, we built the co-owned pipeline of approaches, which we will make available for Pharma partnerships.

Yet another example of our commitment to precision medicine and patient centric approaches to drug discovery is our collaboration with Indivumed in the field of colorectal cancer, which is shown on page 24. We only started this collaboration with Indivumed in April 2019, and we have already achieved our first key milestone identifying targets that we ran forward into the drug discovery process. We use our Pan Hunter platform to mine Indivumed's datatype database, which is a world leading multi mixed database for individualized cancer therapy. This database, similar to NURTuRE and Celmatix databases, contains highest quality patient samples, including genomics; transcriptomics, Proteomics, Phosphorproteomics and clinical outcome information. Moving within only six months from highly complex data sets to selected targets is a major achievement and we are very excited about entering drug discovery already at this point in time for our collaboration. Similar to our kidney and women's health efforts based on patient databases, also this collaboration will be positioned for pharma partnerships going forward.

After target identification and validation, the next important step is to generate drug candidates and test them in disease relevant assay systems. Here, Evotec has built a world leading platform in iPSC-based drug discovery, comprising currently over 250 patient derived iPS cell lines, about 10 key cell types that we can generate at high through put, which is suitable for drug screening and over 120 scientists as well as a fully automated screening platform. Based on this platform, Evotec entered into a drug discovery collaboration with Celgene in neurodegeneration at the end of 2016. Since then, this collaboration has generated a number of key scientific milestones as well as a number of expansions.

Initially, the collaboration was planned for a five-year period up to 2021. Now, at the end of 2019, Celgene already decided to exercise its option to extend the collaboration for yet two more years until the end of 2023. This is a great compliment to our scientists running the collaboration with the support of Celgene and its productivity over the past three years. This

extension triggers a payment of € 30 m and serves as a great motivation for further expansion in this area.

And now, moving on to page 26 to give you a brief update on our academic BRIDGE strategy. Our academic BRIDGE strategy continues to flourish. In 2016, we established six academic BRIDGEs, all of them financially supported by venture funding from universities or more traditional venture capital. End of June, we created a digital health BRIDGE called LAB10x, with Sensyne Health plc, a London Stock Exchange listed company, and the University of Oxford University Information and Oxford Sciences Innovation, the world's largest IP investment company dedicated to a single university. Sensyne Health has access to what is probably one of the largest real-world evidence, anonymous patient databases. They are doing this in collaboration with the NHS Trust. The analysis of these anonymized patient database must be pre-approved for each program, on a case by case basis, by the relevant NHS trusts. This BRIDGE aims to accelerate development of clinical artificial intelligence and digital health tools and develop breakthrough digital solutions and at the same time accelerate drug discovery.

Digital health projects will be sourced exclusively from Oxford researchers to LAB10x initiatives and embedded in the university. In October this year, we established yet another BRIDGE, Lab 555 with Integra Holdings and Yissum, which is the technology transfer company of the Hebrew University in Jerusalem. The concept, to build university incubators of labs is increasingly questioned as a drug discovery process is becoming increasingly complex. The BRIDGE concept, to combine highly creative innovation with leading industrial infrastructure, especially for early stage projects, is gaining more and more traction and we are excited about the opportunities we see to build even more BRIDGEs.

Page 27. In the third quarter, we added three equity participations to our portfolio. We have already discussed the JV with Vifor in kidney diseases, which is 50/50 owned and fully financed for the next three to four years through the € 25 m contributed by Vifor. Aeovian is a biotech company focused on developing highly selective TORC inhibitors for the treatment of age-related diseases. And our most recent addition is Immunitas. Immunitas is a Boston based monoclonal antibody biotech company focused on immune oncology therapy. The key scientific contributions came from Dana Farber Cancer Institute, in particular Kai Wucherpfennig, MIT, here Professor Stan Wittrup and (00:33:11 unclear) and the Harvard STEM Cell Institute, in particular here, Mario Suva. The company's CEO is Christoph Westphal, a highly successful entrepreneur and venture capitalist, as well as fund manager. With this, I would like to conclude the update of EVT Innovate and head over to Werner. Thank you very much.

Werner Lanthaler

Thank you, Craig. Thank you, Cord. Thank you, Enno. Let me round up and give you a very positive outlook for the full year 2019 and already for 2020. Based on the current status of the order books, we can confirm the positive outlook for 2019 with group revenues to grow by approximately 15%. This outlook remains unchanged to the previous quarter, but which was increased in comparison to March 2019 when we guided for a growth of approximately 10% initially. Secondly, backed on very good Q3 results, we increased today our profitability guidance for the full year and do now expect adjusted EBITDA to improve by approximately 15%, which initially was standing at above 10%. Furthermore, we confirm our guidance for unpartnered R&D expenses and expect to spend between € 30 m and 40 m for the full year

2019. Our November order books are strong, our R&D pipeline is very strong, and with this, we look into a very strong 2020 to come. We want to thank you for following Evotec, and we want to invite you to stay with us for the years to come. With this, we open up for questions.

Joseph Hedden (RX Securities)

Good afternoon and thanks for taking my questions. Congrats on the extension of the Celgene neuro degeneration deal. I am just wondering how you are going to be booking that € 30 m milestone, and then also, what progress you have to make by 2023. Is there anything you can say in terms of number of drug candidates and stage of development achieved by then? And then secondly, taking the elements of the guidance or the guidance given today and considering the EBITDA on the nine months, are we correct to assume a ramp in on partnered R&D expenses in Q4. And could you possibly comment on partnered R&D levels in 2020? Thanks very much.

Werner Lanthaler

Thank you. The € 30 m will be basically booked along the progression of the partnership into 2023, but it depends on how many resources we are using for which work packages, which basically is progression along the science. But if you evenly distribute it, I think that gives you a good guidance. The second element of your question, I think the excitement that is behind our iPSC platform is really hard to illustrate with words, because it opens doors to science, which has been completely closed so far, and I think with this you should expect, in the years to come and I don't want to give an exact guidance to this, iPS derived drug candidates to enter the clinic and I think that's then the ultimate proof for the output of this platform. And, I think this is not only what we are pursuing in one indication, but this is what we are pursuing with Celgene, multiple indications with multiple drug targets that are derived on this platform. And, I think here really science guides the work packages and work packages are aligned quite effectively here. But I think it would be a not overstretched expectation to see drug candidates entering the clinic within the timeframe of the now extended collaboration, and maybe here not only one, but multiple clinical interests should be the output of this collaboration. When it comes to the elements, so the second question, elements of the guidance ramp up in Q4, I think here you should see that we are, at this stage, working or at full speed at multiple, currently unpartnered R&D initiatives. At the same time, we are completely focused on quality. So it really comes down how much capacity can be put behind the project and what does this then result in? But targeting the € 30 m to € 40 m more in R&D is the corridor where we are very comfortable to achieve that, probably at the higher end. And I think that should also be a corridor which potentially is a bit higher next year, but will not go massively higher next year. And again, that's a function of how many partnerships will be initiated next year of currently unpartnered projects. And, of course, how many new projects will be put on the platform. But given the capacity that we have at hand, at the quality levels where we need it, I think here if you would take current numbers and potentially increase them by 10% or 15%, that is the maximum of R&D expenditure on an unpartnered level that I at this stage can foresee.

Falko Friedrich (Deutsche Bank)

Yes. Good afternoon. Thanks for taking my questions. I would have three, please. Firstly, you did mention a positive outlook for 2020 a few times. Could you share a bit more colour on the indicators for that assumption? Then secondly, on the Vifor Pharma deal, could you explain again how it works with your opt out rights and how flexible you are when it comes to potentially taking on costs for the clinical studies? And then thirdly, on Sanofi and the Toulouse site, could you quantify the growth you have seen there this year? And can you quickly confirm that beyond 2020 there will be no other impact than the subsidies that fall away, which has been communicated? Thank you.

Werner Lanthaler

Question number three will go to Craig. Question number one. Just to give you a few elements that make us so excited about the 2020. One is that the megatrend of precision medicine that we have been establishing on our scientific platforms is what drives the demand for these platforms from both sides, from EVT Execute partnerships and also EVT Innovate partnerships. So, on all business lines, when you are hitting a megatrend scientifically, we feel that the demand for these business lines is increasing and we see it, because we have the strongest order books despite the fact that we have higher capacity than ever into 2020. We do not quantify this at this stage because we give full guidance by the beginning of 2020, as every year. But, if you look at the numbers of recruitments that we are targeting, and if you just count on our website, this gives you a very good indication that we are looking for a lot of good talent to join Evotec. The second indicator for this should be the number of long-term partnerships that we have closed in the last three years. And of course, with a long-term partnership that, for example, exists with Bayer, that exists with Sanofi, that exists with Celgene, that exists with the Huntington Disease Foundation, that exists with the Gates Foundation, that exists with multiple others, you see a full utilization of the platform, where there is no variability and of course, everything that you can fully book for a full year gives you enormous security for these platforms and capacity utilization going forward. The third element is, you have seen slight situations already in the last quarters, but we are able to increase gross margins. Increasing gross margins is coming from two sources. One is that our performance-based business model pays off and by achieving performance-based milestones, of course you increase gross margins. And the second, it shows you that capacity utilization is very strong and that maybe a third element to that we are able to increase certain prices for technically very sophisticated things that we are doing, and our customers are very willing to reward us and pay for that. So I think these are just a number of indicators that make us very comfortable for a very strong 2020 to come.

Vifor, here, you should first appreciate, that this is a very early stage collaboration. So at this stage, we would say that we are at least four years away from a clinical entry of any of the new targets that we are progressing in this partnership. Having said that, what we have defined with our partner and it comes down to creating the best possible partnership for both parties. We have created a system where typically every target would continue to be progressed by Vifor and their clinical and commercial outlet, which is fully established together with a global pharma partner and fully established also in the market. Having said that, Evotec has retained the opportunity to be part of larger parts of the clinical development, if we would want to do so. If we do not want to do so, we can always not take up further costs in clinical stage and basically keep upside potential and royalties on every target that comes out of this joint venture. So, it gives us and Vifor full optionality to progress on the best scientific targets forward. It does not create any additional burden on our clinical spend going forward because

there is none. But if we would want to opt in for something, we would have the optionality to do that. The third question I hand over to Craig.

Craig Johnstone

Thanks, Werner. So, yes, in terms of the Sanofi Toulouse sight in particular. Just to remind you, we started off in 2015 with a partnership which we transferred around 210 employees into Evotec and today, on site, there are over 550 employees. So from our perspective, that growth, which was driven entirely by external demand, that in-coming work, we considered it a really fantastic success story of conversion of a site from one business model into another. In terms of growth over last year, in the nine months to this point, comparing to 2018, that represents approximately a 30% growth, nine-month 2019 compared to nine-month 2018, same period. And just to give a sense of revenue impact, the Toulouse site has contributed something in the region of € 66 m revenue in the nine months year to date. I guess we want to remind you that, of course, our partnership with Sanofi is not limited only to the Toulouse site. We have multiple interactions with Sanofi, and we enjoy a very long strategic partnership with Sanofi that goes beyond 2020. Nevertheless, I can confirm that the subsidy ending in 2020 is limited entirely to the year 2020 and does not reach beyond.

Werner Lanthaler

And maybe an additional comment. Of course, we track the performance of individual sites. Having said that, most importantly for us is to deliver output where the whole network of Evotec comes together to the output to our partners. So therefore, the isolated view on a site is not the power of the full network that we bring to our partners and the full platform that we bring to our partners. And here, it is a full puzzle that comes together, where Toulouse is a strategic puzzle which is extremely important for the long-term growth of Evotec.

Iris (Berenberg)

Hi, this is Iris is on for Patrick. Thanks for taking the question. So just on the Biologic piece, can you tell us where the build out of the J.POD manufacturing is and if it's due on track to be completed by 2021? And then also, can you remind us how much the build out is expected to cost and if it's trending so far within your expectations? And then lastly, can you tell us what the biologics capacity of Just.Bio will be when the build out is completed? And then, how should we think about this capacity expansion in terms of the potential for cell scores acceleration? Thank you.

Werner Lanthaler

Thank you very much. Just - Evotec Biologics is for us very strategic and, as I said before, a fantastic addition to the family. Craig will answer your questions.

Craig Johnstone

Hi, Iris. So, we are very carefully evaluating the further expansion and development of Just - Evotec Biologics and indeed are very carefully evaluating the construction of the first J.POD. I can confirm that the location of that J.POD will be in the Seattle area. If and when we go ahead, because the skills and the knowledge are seated there, and all the knowhow and the history is seated there. And so that transfers directly into the background knowledge that

would need to be designed in. In terms of timeline, as I said, we are working very carefully through the detailed plan. We will come back with details of that before the end of the year. And in terms of capacity, of course, that is part of the evaluation, is to understand how much capacity to build and at what rate.

Werner Lanthaler

And the capacity function leads into the capex function, and that will be concluded as a full package of work by the end of this year, and then we will give clear capex and cost guidance by the beginning of 2020 latest. But all we can say at this stage, that all expansion that we, even in the most aggressive plans can foresee, are already easily fully financed with the cash at hand at Evotec, and therefore we feel very comfortable to go full speed here, without any external financing needed for anything that we plan to do there.

Volker Braun (Bankhaus Lampe)

Thank you, Volker Braun, Bankhaus Lampe, just a follow-on question on the contribution in the first full quarter now in Q3 was € 10 m. If I remember correctly, you said that in 2018 full-year revenues stood at some $ 20 m, which suggests quite steep ramp up, 100% on an annualized rate if I take Q3 as a proxy, as a run rate for the remaining quarters, is that a fair assumption or was there any particular one-off event in Q3? So what would what can we assume then for Q4? A similar number?

Werner Lanthaler

So you have to first of all, see again that this is a high growth market, but capacity we can at this stage not multiply by 2 or even further than that because it's high quality capacity that is delivering within trust. So Q3 was very steep because of, I think, fantastic performance, that is one thing, but more importantly, also a Biocon transaction, which we have announced and where we have shown an upfront payment, also in our books. You cannot expect such an upfront payment again in Q4 at this stage, and therefore, I would see the number on your revenue line significantly lower than what you have seen in Q3. Nevertheless, a very strong growth versus 2018, and if you assume something like a 30% to 50% growth that we see, that is then maxing the capacity that we have available at this stage. And that is why building capacity into 2020, 21, 22 is absolutely strategic for us, within Just - Evotec Biologics, so it is not limited by the market at this stage. It is limited by capacity.

Volker Braun (Bankhaus Lampe)

Capacity. Understood. And in terms of EBITDA contribution, can we assume that it is already breakeven on that level or even…

Werner Lanthaler

I would be cautious there as well because what we see is fantastic R&D opportunities. And we would just not exploit the full potential of especially the machine learning algorithm that is available within Just by combining this with our ongoing antibody initiatives and the rest of the platform and within EVT Innovate. So I think if you assume a neutral EBITDA, that would be already a great success and would be ahead of plan, what we had in mind when we acquired Just - Evotec Biologics. So, we could not be happier than we are with this acquisition at this stage.

Volker Braun (Bankhaus Lampe)

Very good. Which in turn implies that the margins of the base business, excluding any milestones or Just.Bio was even stronger than what we see at first glance. Right?

Werner Lanthaler

Yes, but also here, that is a function of, at this stage, high-end biologics, so that is really the norm of what you would see also at other high-end biologics technology providers. So that would be in the norm or slightly better than the market.

Volker Braun (Bankhaus Lampe)

Very good. Congratulations.

Thomas Schiessle (Equities)

Thank you for taking my question. Actually, let's check on the actual iPSC platform. We have heard your enthusiasm about this technology platform and Celgene collaboration extension. I wonder, will we see some additional partners in your books in the coming quarters? And to my knowledge, there is a number of platforms left to fill with new partners. So a little bit light on that would be appreciated. Thank you.

Werner Lanthaler

I think for us, the strategy has always been to land and go deeper on certain platforms that we want to build and partnerships that we appreciate. And I think here, the biggest compliment that was available to give from our partner to us, was to very early on say, we want to go deeper and broader in our neurodegeneration platform, we are very excited and very proud of our iPSC relationship that we have in the field of beta cell therapy together with Sanofi. And we are investing our R&D money at this stage in broadening the iPSC platform in other biology driven areas and giving here guidance on if a partner comes sooner or later would be probably premature. I think what you should see, there is enormous interest. And I would say also enormous synergy with some of the partners in different disease areas where we are active. So I think it is not a question that there will be future partnerships, it is only a question when they will be there, and at this stage, I think it is also capacity driven that we really focus the capacity on high-value partnerships that are already existing, and it would be hard to build very large partnerships with capacity at hand that is fulfilling our quality criteria and what we typically promised to our partners. But of course, that's a major goal for 2020.

Operator

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

Werner Lanthaler

With this, let me invite you, if you have further questions, just reach out to us. The numbers of the management team are well known to many of you. Gabi Hanson's line is open 24 hours

a day as it looks. And let me thank my team. Let me thank you. And I wish you all a great remainder of the day. And I hear you soon again. Bye-bye.