Evotec SE
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)

Presentation

Operator
Dear ladies and gentlemen, welcome to the conference call of Evotec SE. At our customers' request, this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. (Operator Instructions) May I now hand over to Werner Lanthaler, who will lead you through this conference. Please go ahead.

Werner Lanthaler, Chief Executive Officer

Welcome. This is Werner speaking from Evotec. Welcome to our 2019 reporting, opening new doors. As always, you can find the supporting slides for this conference call on the web. I'm here together with my team, our CFO, Enno Spillner; our COO, Craig Johnstone; and our CSO, Cord Dohrmann. We are all in separate locations and all in best health and fully active for the company, as all sites of Evotec are fully active. When you go to Page Number 3 of this presentation, you see hash tag, Researchneverstops-now more than ever. So before, we look back in the back mirror for 2019 and before we look forward into the short and long-term future of Evotec, let me bring you into the now. And with this into of why Evotec exits? For more than 3,000 co-workers, research never stops as long as there are more than 6,000 untreatable diseases on this planet. With COVID-19, only one of the hundreds of viruses shows us why innovation and access to effective prophylactic and therapeutic medicines for all is key for global society. In the last week, Evotec, in accordance with the relevant national guidelines has come together on the four clearly defined principles. Protect, first protect yourselves and with this, protect everyone else. With this, we hope, and your firms and your families are healthy and stay healthy. Respect, respect the fact about this pandemic, but also respect the attitude and behavior of every individual who is living with you in the society right now. Stay focused, we as a company, that is essential to fight diseases, has come together, to fight this disease as many other diseases. With this, we try to stay focused within our core competencies and most importantly, we try to stay open. Our focus includes for th last year's already infectious diseases in virology, which is a key to fight this crisis. Help, never let this crisis go to waste. In this period, COVID-19 is also an opportunity to do things and to think about things that were not in our core business before. Here, just a few small examples of the many things that Evotec does and our employees have started to help other people in our environment. For example, we are supporting local testing initiative of hospitals around us. We have opened our infrastructure for people around us. And of course, this is only a site activity next to our brilliant research that we are doing. And these are the moments that make me very thankful and humbled to see how brilliantly our employees work to fight diseases. When written in Chinese, the word crisis is composed of two characters. One character represents danger. The other character represents opportunity. This is also how we approach this topic now. And with this, let me bring you into the opportunities that we see

for us in our business, because the opportunities and responsibilities are bigger than ever before when you look forward for Evotec. With this, if you go to Page Number 5 of this presentation, it says it's just the beginning and we are opening more doors than ever before. Let us just briefly look back into a record year in all dimensions of Evotec. 2019 marks another year of multiple highlights, and only very few lowlights that illustrate why our mission is just at the beginning. Both segments, and Craig and Cord will bring you into this, are running and performing at full swing. On Page Number 6, it shows you that we are working along a long term and consistent strategy. This is what our business is built on. We are currently in the middle of the so-called Action Plan 2022, and we feel very comfortable along this action plan, which we have started in 2017 in all the goals that we have set for ourselves. Creating the leading external innovation platform on all modalities is the key element of this phase of our corporate evolution. Our jump start into biologics and our significant scale up in cell therapies, clearly mark here some very important key milestones along the strategy. And you can be certain that we are fully aware of the importance of, for example, gene therapy or anticells [ph] in this context to become the truly multi-modality platform for the industry. If you go to Page Number 7, a multi-modality platform multiplies optionality for our business model. Next to building and expanding our excellent fee-for-service platform, we are accelerating with our very focused first-in-class R&D investments, the creation of very large pool of co-owned opportunities. Also here, 2019 shows fantastic progress and allowed us to come to critical mass with many positive portfolio effects, with more than 100 co-owned assets that we show right now. Page Number 8 translate our strategy into numbers. And despite COVID-19 uncertainties, our strategy is on track. The translation of our strategy numbers and the more than EUR300 million cash, show you that we are in a strong position. Yes, I think, it is fair to say that even despite massive global challenges, we are in a very strong position. The megatrend of external innovation is fully active, and our leadership role will become even more visible in the next years. Also for 2020, despite several one-time effects and of course, the COVID-19 challenges, we see a strong year ahead of us. Only external reasons, such as potential ongoing pandemic threats and pandemic interferences can temporarily slow down Evotec, but nothing can stop us in the long run. If you go to Page Number 9, you see scientific excellence meeting operational excellence on our platform. And when we say opening doors, it really means that opening doors for the 500 new top talents that we have recruited in 2019 is key for our long-term strategy. The recruitment of 500 talents into Evotec is a key building block behind our long-term business plan and we were very happy to achieve this in 2019. The mix of good retention and very good success in recruiting is important for our long-term goals. Of course, also here, we see currently slight delays, but we consider this as a manageable task once the current challenges are over. With this, let me also here thank you very much for following Evotec and let me guide you into the details of our full-year 2019 reporting by handing over to Enno.

Enno Spillner, Chief Financial Officer

Yes, and pleasure to do so. Thank you very much, Werner, and good afternoon or good morning, everyone, from my side as well. I now have the great pleasure to guide you through our very successful 2019 full-year financials. All three elements of our -- I'm referring to Page 11 now. All three elements of our external guidance, namely group revenues, Unpartnered R&D, as well as the adjusted EBITDA, were well achieved, indicating that we once again have realized a further strong year of growth, even significantly better than initially anticipated. In this context, I would like to remind you that we have upgraded our guidance with regards to revenues and adjusted EBITDA and two times during the course of 2019, due to better than expected business development. Significant milestone

achievements confirmed in very late December led us to further increase our profitability guidance in January 2020 to more than 25% growth in our updated guidance. As you can see on Page 12, Evotec continued its very strong performance from the previous years in 2019. And we can report record numbers for the full financial year. Revenues and adjusted EBITDA are both exceeding our initial budget, and these numbers confirm Evotec's broad growth across units or all units and all segments. Revenues increased by EUR71 million or 19%, respectively, to EUR446 million compared to 2018. Good base -- business growth in general, with particular strong growth contribution from our site in Toulouse, significant and higher than expected milestone achievements and contributions from Just-Evotec Biologics of EUR16 million for the second half of the year with the main pillar of a good growth mix. This significant growth was achieved at a stable gross margin of 29.8%. And also, to be clear here, the change in accounting regulations, namely introducing IFRS 15 does not play a significant role in this comparison here as the EUR375 million top line from 2018 contains already the IFRS 15 impact for better year-on-year comparison. R&D expenses increased as forecasted to more than EUR58 million on the consolidated level, whereas unpartnered R&D expenses amounted to EUR37.5 million, which was at the previous year EUR22.8 million, so also here a very significant step-up. Our partnered R&D expenses amounted to EUR20.9 million, the latter being reimbursed predominantly by our partner, Sanofi, for our ID Lyon activities under the P&L line, other operating income. The increase in SG&A expenses to EUR66.5 million were mainly based on the overall organic and strategic company growth, encompassing staff increase to cover the overall growth during the first full year significantly [ph] on Lyon ID. As a reminder, 2018 was only half year. Adding a first-half year of Just Biologics, upgrading our systems, consultancy fees in context of acquired companies like Just-Evotec Biologics, engagements in the field of equity and last but not least, our financing transaction. So, a whole mix of reasons for the increase of SG&A. And impaired -- an impairment of EUR11.9 million had to be recorded in Q2 2019 for the program SGM-1019, after the termination of the respective clinical development by our partner Second Genome. The other operating income increased from EUR47 million to EUR66.6 million, mainly due to the just mentioned reimbursement of partnered R&D expenses relating to our ID Lyon activities. Another important impact within this P&L line came from our tax credits, which amounted to EUR28.5 million and increased in line with the growth of our business, originating from France, Italy and from the UK. The operating income decreased by EUR14.9 million compared to the previous year 2018 and two one-off effects have to be mentioned in this context, which explain this reduction. In 2019, higher impairment charges in the amount of net EUR7.5 million were recorded and 2018 included also a positive one-off income from bargain purchase of $15.4 million related to the acquisition of our ID Lyon activities. In consequence, the adjusted EBITDA increased very successfully by 29% to EUR123.1 million. This number was also positively impacted by the new accounting rules, IFRS 16, referencing to operating leases. And this new rule was implemented from January 2019 onwards and amounting to EUR15.5 million in 2019. Excluding the IFRS 16 effect, the adjusted EBITDA would have amounted to EUR109 million and increased by EUR13.6 million or 14% compared to the full year of 2019 due to the strong top line growth. The net result decreased from EUR84.1 million in 2018 to EUR37.2 million in 2019. And this number is not like-for-like really when comparable to last year due to the aforementioned one-off effects, deferred taxes and the expansion of our equity or Evotec equity strategy and adding further losses below the EBITDA line. All this consolidating more losses under the EBITDA line. Let's take a look at both segments on Page 13. The segmenting does underline again the very strong performance in both segments as mentioned before, confirming that we experienced a broad and very solid growth across the whole Evotec Group. Execute revenues increased by EUR73 million, or

21%, to EUR420 million versus previous year, mainly due to a good growth in the base business, and again adding Just-Evotec Biologics.
Total Execute revenues includes inter-segment revenues of EUR82.7 million. With increased efficiency, high utilization and focused cost management, as well as the impact from IFRS 16, the adjusted EBITDA improved even by 41% to EUR122.5 million. Looking at the Innovate revenues, this grow significantly by 37% to EUR94.3 million. And the increased R&D investment in both partnered and unpartnered R&D reflect our very strong commitment into our co-owned strategy and long-term value generation and sustainability. In total, we invested close to EUR60 million in R&D, as mentioned before, and compared to 2018, this represents an increase of 64% and that's a record investment into R&D, which started to generate significant returns during the past years already, as you can see from the growing milestone contribution and revenue growth, but also hubs building very significant upside potential for the future. Despite these significant R&D investments, the adjusted EBITDA was once again slightly positive with EUR0.6 million. That said, short term, it is not our major intent to make the Innovate segment highly profitable immediately, but to really secure a significant investment into innovation, meaning existing and new first-in-class products – product candidates as well as paradigm shifting platforms. Page 14 is the view of our -- at our very well performing fourth quarter and in particular, looking at our top line, Q4 was an outstanding quarter with EUR125.1 million of group revenues. Revenues include very significant milestone achievements from Evotec Innovate and the growing base business, including contribution from our latest acquisition, Just Biologics. The adjusted EBITDA in Q4 increased by 12% to EUR29.9 million, showing a very strong adjusted EBITDA margin of almost 24%. And with this, I would like to hand over to my colleagues, Craig and Cord, who will guide you through the operational and scientific performance of Evotec. So, thank you all and over to Craig.

Craig Johnstone, Chief Operating Officer

Thank you, Enno, and good afternoon to everyone on the call. I'm very pleased to take you through some of the highlights of the operational performance of 2019. The Autobahn on Page 16 represents our fully integrated platform, the highest quality infrastructure on which all of our projects and activities run, both Execute and Innovate projects as well as academic BRIDGEs. All of these projects benefit from the expertise of the teams, the economies of scale and capacity and the investments in technologies, which, when integrated and coordinated together, drive the project to the highest speed and the highest probability of success, smoothing out the inevitable scientific bumps in the road, and achieving the best progress towards the destination, effective safe medicines for patients. In 2019, we added a whole new lane to the highway with the acquisition of Just Evotec Biologics, making our Autobahn truly multi-modality and opening doors into a whole new range of scientific opportunities for our partners and our Innovate pipeline. Moving on to Page 17, what are the philosophies firmly embedded at the heart of Just Evotec Biologics and which resonated so strongly for us was the idea that the real value and integration was optimized with the horizontal view of the innovative process, working towards a clear vision of the therapeutic intent right from the start and through into this trinity work, solving problems at every stage. Intellectual property and inventive step are built through creative interdisciplinary problem solving, and through expert input from the most relevant team members at each stage in the project, combined with cutting-edge predictive science and computational power. We have the best chance of solving problems, increasing success throughout the drug discovery and development process. With Page 18, I'd like to pick out some of the highlights of 2019 in the Execute segment. Notably, all the business areas and functions showed growth compared to 2018 and taken together, Execute delivered the

growth of 21% in the year, with a robust gross margin of 26%. We forced new projects and partnerships, such as with Astex, Yale, and Takeda. We added new strategic platform capabilities and technologies, such as with the global sample management agreement with Sanofi. And we extended many of our existing integrated discovery and development partnerships, such as with STORM, Enterprise, Aeovian and Dermira, all with a very high return rate of customers. On Page 19, I come to one of our major events in 2019. The acquisition of Just Evotec Biologics. The philosophical core was and still is the fully integrated horizontal vision of biologics discovery, development and manufacture to create more affordable wider access of these very important medicines. The scientific core is the application of a proprietary machine learning based predictive tool called Abacus, to improve design and selection of antibodies for more cost effective development and processing. Moving on to Page 20. We look to the future of manufacturing of antibodies, and we believe that the future of antibodies will be towards smaller, more flexible and less capital-intensive infrastructures. Why? Because we anticipate that biologics products are going to be more targeted, more personalized and applied in more areas of novel biology, such that the bulk demand for each new molecule in clinical development maybe lower and will probably be less predictable. In addition, since the product and the process are so intimately linked, and Just Evotec Biologics represents a fully integrated vision of biologics discovery and development, we embarked upon the construction of the facility of the future in 2019. And I'm excited to share with you on Page 21 an up-to-date image of the site. We were also delighted to signed our first partnership with Merck Sharp & Dohme, and have already engaged with the FDA to prepare well in advance for this innovative facility to come online during 2021. So on Page 22, I'll draw this section to close by sharing that we continue on the same very positive trajectory, perhaps slightly slowed down due to the current global climate. But nevertheless, throughout 2020 and most importantly in the long run, we look forward to bringing news of new alliances and partnerships and indeed further extensions of our platform capabilities in future goals and arrangements. With that, I'll hand over to Cord.

Cord Dohrmann, Chief Scientific Officer

Thank you, Craig, and good morning, good afternoon to everybody on the call. It's my great pleasure to summarize the achievement of our Evotec Innovate business segment in 2019. Evotec Innovate continues to build enormous financial upside for Evotec through investments in proprietary drug discovery. These investments form the foundation of strategic partnerships with pharma companies and our spin-off companies. Both our strategic pharma partnerships, as well as our spin-off companies then contribute to the expansion of our co-owned product pipeline. 2019 was a truly exceptional year for Evotec Innovate financially as well as scientifically. Overall, 2019 was clearly the most successful year since its inception in 2010. This is not only true in terms of revenue growth, but also in terms of scientific milestone achievements. Let me briefly illustrate again the financial achievements. In 2019, Evotec Innovate posted record revenues of close to EUR95 million. Compared to 2018, this represents an increase of about 37%, based purely on organic growth. Scientific milestones contributed close to EUR40 million, which are also more than ever before. So the more despite yet another great significant increase in R&D investment, Evotec Innovate continues to maintain a positive EBITDA. In 2019, Evotec Innovate invested close to EUR65 million into R&D. Compared to 2018, this represents an increase of over 60% and that's more than we ever invested into R&D on an annual basis. Financial performance, combined with the accompanying co-owned pipeline buildings, further confirms R&D investments are highly successful. Through our Evotec Innovate revenues alone, we continue to cover our cost of R&D. Meanwhile, we're -- while we are creating a constantly growing pipeline of co-owned product opportunities, which have a huge financial

upside for Evotec. For co-owned drug product, this upside is generally in the order of EUR100 million to EUR200 million in success-based milestones, plus potential royalties that reach from solid single-digit royalty rates into the double-digits. On the scientific side, we have made similar fantastic progress. The pipeline of co-owned drug product opportunities keeps maturing. More and more product opportunities keep moving into the clinic, show that [ph] more clinical stage projects are starting to deliver exciting clinical data in patients. Moreover, preclinical stage discovery projects are also moving forward and are entering formal preclinical development, often associated with very significant milestone payments. At the same time, we continue to build spin-out companies. Combined two of our spin-out companies called Breakpoint and NephThera, raised about EUR55 million in financing last year. Both companies are solely based on Evotec Innovate R&D projects and Evotec employees. Both companies formations belong to the most successful early-stage company formations in Europe in 2019. Furthermore, we continued to invest into R&D. These investments focus either on individual drug discovery projects in core Evotec disease areas who are highly differentiated drug discovery platforms, such as our iPSC platform. The platform investments include investments into building patient databases, which deliver novel drug discovery starting points, as well as patient stratification opportunities during clinical development. Last but not least, we stay committed to infectious disease. The reasons here are probably more obvious today than ever before. We have built a number of partnerships, in particular, in the antimicrobial field, but we are also working on various antiviral projects including now also to support our SARS COVID-2 initiatives. We are committed to contribute whatever we can to help manage this crisis and are working with colleagues in the pharma industry to do this efficiently and effectively. The two next slides gives you an update on our co-owned pipeline. Our co-owned pipeline continues to grow and mature. We will not be able to take you through all these achievements in 2019, but we only want to mention a few highlights. I'm starting with our clinical stage pipeline on Page 24. The most important progress we achieved in our collaboration with Bayer. Here, our lead project generated highly promising Phase 2 clinical results in chronic cough. Although the primary focus of the collaboration with Bayer was and still is on endometriosis, early on it was clear that our lead program showed significant promise and another -- in a number of other indications, which included also chronic cough. And this is why Bayer pursued this opportunity together with us as soon as possible. The project is based on an ion channel target called P2X3. The P2X3 project was brought into the collaboration originally by Evotec. The lead drug candidate, 1817080, was advance into a Phase 2 proof-of-concept study for the treatment of refractory chronic cough, and in the study, Bayer-1817080, showed a promising efficacy and safety profile, clearly meeting the primary endpoint. Together with our partner, Bayer, we are very excited about the prospects of further clinical development in chronic cough, as well as a number of additional indications. A Phase 2, Phase 3 study in chronic cough is expected to start within the next 12 months. I also wanted to mention a couple of highlights from our preclinical stage pipeline. Here, I would like to mention, in particular, our spin-out company Topas Therapeutics and our neurodegeneration collaboration with BMS. Some of you may remember that Topas Therapeutics was spun-out of Evotec in 2016. The company were focused on the development of tolerance inducing antigens through the delivery of nanoparticle conjugates. Tolerance induction is one of the most exciting mechanisms in the field of autoimmune diseases, as it has potential to generate a cure. Topas' nanoparticle platform could prove highly effective in multiple autoimmune diseases. This is, of course, depends on the delivery of disease-specific antigens. The first drug candidate of Topas TPM203 entered a Phase 1 trial for the treatment of pemphigus vulgaris at the end of 2018. The Phase 1 trial is an open-label study designed to evaluate safety, tolerability and also pharmacokinetics of TPM203. However, the study will also explore early signs of effectiveness of TPM203 to induce

antigen-specific immune tolerance in patients suffering from pemphigus vulgaris. Regarding our preclinical stage drug candidate pipeline, here we added another candidate through our neurodegeneration collaboration with BMS-Celgene. At the end of 2018, we identified a preclinical development candidate for which we initiated preclinical drug profiling and development activities. According to our current plans, this candidate is expected to enter clinical development in 2021. Overall, our neurodegeneration collaboration with BMS-Celgene has been highly successful on quite a number of projects, which is also reflected in various milestone payments we achieved during 2019. But most importantly, BMS-Celgene decided to exercise its option to extend the neurodegeneration collaboration early for two more years. This extension secures the collaboration until the end of 2022, based on a $30 million milestone payment. Finally, I would like to mention a few highlights from our discovery stage pipeline. Although we added a number of drug discovery collaborations over the course of the year, we are clearly very excited about yet another collaboration with Bayer. In contrast to the first to collaborations, which are focused on endometriosis and kidney, respectively, this new collaboration will focus on polycystic ovary syndrome. This collaboration is based on the partnership we initiated with Celmatix. Celmatix has built a unique patient database in the field of women's health, including polycystic ovary syndrome, which is expected to deliver a new drug discovery starting points, based on the most comprehensive women's health patient database currently available. Finally, a couple of highlights regarding the expansion of the discovery stage pipeline on Page 25. In 2020 -- 2019, we spun-out two companies, solely based on Evotec Innovate drug discovery projects and Evotec scientists. One company called Breakpoint is focused on developing novel oncology treatments based on mechanisms targeting DNA damage repair. This company was co-financed by Medicxi and Taiho Ventures, with a Series A round of EUR30 million. Similarly, we build a company with Vifor Pharma called NephThera. This company is focused on developing novel treatments for chronic kidney disease in a space on our patient database generated from about 5,000 kidney disease patients. This collaboration was financed by our partner, Vifor Pharma, through a Series A financing of EUR25 million. In Breakpoint as well as in NephThera, Evotec maintains an equity stake of close to 50% currently. With this, I'm moving on to Page 26 to briefly discuss our progress on building academic BRIDGEs. Our first BRIDGE, LAB282, with Oxford University has been highly productive and very successful and become the blueprint for a number of additional BRIDGEs, which is illustrated with the growing portfolio, currently building -- that they are currently building in Europe, ESO [ph] and North America. On Page 27, I would like to give a brief update on our equity strategy. Once again, 2019 has been a very successful year with a number of follow-up financing and also new investments. And here are only a few highlights. One example is Immunitas, a company spun-out by Kai Wucherpfennig, Mario Suva and Dane Wittrup, who are all faculty members at Harvard Medical School, Massachusetts General Hospital and MIT, respectively. All of them are highly accomplished scientists in the field of new oncology [ph] and protein engineering. The company is backed by highly successful venture capitalists, such as a the Longwood Fund, the Alexandria [ph] Venture investment program and the Novartis Venture Fund. We are very excited to be part of this group, which successfully raised $39 million for its Series A round. Moreover, they are also significant scientific and corporate progress within the Fibrocor, Facio, Nurture, Aeovian and Forge. Most recently, Forge signed a license and collaboration agreement with Roche in the area of infectious diseases, specifically Forge's antibiotic programs. Forge is eligible to receive over EUR190 million in total payments plus royalties. So overall, we feel that the equity portfolio is making great progress and we are very excited about it. Looking ahead on Page 28, 2020 has started very well for us and without going into any details, you can expect that many more scientific doors will be opened with our lead drug discovery and

technology platforms. This concludes our overview of Evotec Innovate. And I will hand back to Werner.

Werner Lanthaler, Chief Executive Officer

Thank you so much. Before coming to our guidance, let me tell you how much we would love to see you in person in New York City at our R&D Day. Having said that, given the circumstances, we have to postpone this because we have discussed internally it makes much more sense to have this in person, then just the short technical call because it will not give you the full flavor of the power of our fantastic assets that are coming through our pipeline, but trust us. In the meantime, you will see a lot of news flow coming from our Innovate pipeline and our multi-modality approach to drug discovery and development. If you would like to follow me to conclude to Page -- yes, it was a great year 2019 and yes, there is a strong year ahead of us, where we have to master several challenges and one that we all did not foresee, called COVID-19. Given the current (inaudible) insecurities surrounding COVID-19, and possible future disruptions from our partners and also our own business environment, we looked into our guidance very carefully for 2020 and have assessed more critically than probably in previous years, the potential impact on our business and that's also the reason why the current guidance is relatively broad. In 2020, the total group revenues are expected to range somewhere between EUR440 million to EUR480 million. This anticipated revenue growth is based on the visibility of the current order book, expected new contracts – contract extensions and milestone opportunities. On the other side, please bear in mind that the 2020 specific loss of the Sanofi oulouse subsidy, which was discussed several times is also factored into this guidance. Evotec's adjusted EBITDA is expected to be in the range of EUR100 million to EUR120 million, despite increased R&D investment, the expected loss of the subsidy from Sanofi and the significant ramping up of Just Evotec Biologics business by investing into our highly innovative J.POD capacities. As in previous years, we will continue to significantly invest in our own unpartnered research and development activities to continue and create an even broader and bigger long-term pipeline for first-in-class assets going forward. Here, we expect around EUR40 million in spending in 2020. With this, you get a great overview of what we have done in 2019 and what you can expect from us in 2020. And with this, we want to, in these times, especially also thank you for following Evotec, not only in the short run, but in the long run. And we want to -- we want to make sure that you have a company that is mastering all challenges together with you. With this, let me hand back to the operator and invite you for questions for this conference call.

Q&A

Operator

Thank you. Dear ladies and gentlemen, we will now begin our question-and-answer session. (Operator Instructions) The first question comes from the line of Joseph Hedden, Rx Securities. Your line is open. Please go ahead.

Joseph Hedden, Analyst

Good afternoon, and congrats on strong full-year 2019. Thanks for taking my questions. So Q4 milestones had a very strong performance and I know that a few of these have been disclosed. But could you possibly provide any further details on how you reached that

number? And then, do you see 2019 as a particularly strong year for milestone income, or because of the significantly expanding number of collaborations? Is this kind of a new normal level? And then I just wanted to ask on Just Bio, EUR16.1 million revenues on the half. So if we take that as a kind of EUR32 million-ish for the full year, if it was -- if it was a full year, that was your previously -- is that in line with previously stated expectations? And is it just going to be EBITDA neutral in 2019 if that's the case? And what do you expect for 2020? Sorry, if that last one didn't quite make sense.

Enno Spillner, Chief Financial Officer

Thanks, Joseph. We'll answer as the questions come. On the milestones, I think it is fair to say that 2019, particularly Q4 was very, very strong. It comes from the portfolio of several -- also smaller milestones from, for example, Bayer, Sanofi, BMS, but the major driver was clearly our neurodegeneration platform based on our iPSC platform, which delivered just outstanding results through the whole year, but also very visible then in Q4.
Is this a new normal of our milestone level? I think here we should be all be prudent by understanding that milestones cannot be predicted because they are driven by biological events. But what is the new normal is that the portfolio of optionality of milestone is getting broader and deeper in more advanced. Going forward, I think, with this, we are very confident here into 2020, 2021, 2023, then until on top of the milestones, you will also see royalties coming in, in the long run of our business plan. When it comes to Just, I would like to hand over to Craig.

Craig Johnstone, Chief Operating Officer

Thanks, Enno. Thanks for the question, Joseph. In terms of guiding for Just, yes, and I think, the half year of EUR16 million is a good guide for what we are hoping to achieve in 2020, subject to the uncertainty that we've just announced along with the guidance for the year. And in terms of EBITDA, it came in -- yeah, approximately – approximately neutral in 2019. And we expect that obviously to develop into a positive EBITDA in 2020.

Joseph Hedden, Analyst Rx Securities

Okay. Thanks very much, both. Thank you.

Werner Lanthaler, Chief Executive Officer

Next question, please.

Operator

Thank you. The next question -- yes, the next question comes from the line of Chouhan Naresh, Intron Health. Your line is now open. Please go ahead

Naresh Chouhan, Analyst Intron Health

Hi, there. It's Naresh Chouhan from Intron Health. Thanks for taking my questions. Firstly, Werny, you spoke about opportunities in this new environment. And one of them, potentially we could be seeing in other industries, people looking for more local suppliers. And on top of that, we've seen -- I spoke in some biotechs who have suggested that they are worried about IP risk when using some of your competitors in Asia. Are you seeing a

rather [ph] increased inquiries from customers who may have previously used Asian customers in Execute? That's the first question. And secondly, as milestones -- most of them clearly become a bigger part of the business. What's not clear, but would makes sense and would be -- hopefully there would be some color on this. And presumably, you've been adding new contracts and those new contracts are potentially bigger in average size in scope and potentially in profitability. Just some color around how this Innovate contracts are - new alliances are evolving in terms -- from a financial perspective? And thirdly, on -- also on kind of milestones for this year, we are seeing clinical trials being disrupted. Maybe state which kind of milestones would potentially be hit this year? But is there a risk to milestones this year from been delayed into 2021 potential or later from any disruption? And the final question is, can you give us a sense of the value of the equity portfolio? It sounds there is some quite interesting stuff in there. But if you can quantify, that would be very helpful. Thanks.

Werner Lanthaler, Chief Executive Officer

First question, I will hand over to Craig. Second question will go to Cord. Third question, milestones for this year hit by delays, I will take. And the equity portfolio, I will then hand over to Enno. Let me start by the third question for delayed clinical trials of this year. Yes, we see it in the industry that many of the large pharma companies have already announced, example, Lilly, that some of the clinical trials will not be recruited as fast as they were originally thought. Here, keep in mind that our milestone portfolio is composed of two elements, one element is preclinical and discovery milestones and the other milestones are clinical milestones. The majority of the milestones, we expect are from discovery and preclinical advancements. So here a lot of the progress is in our own hands. And therefore here, as long as we can fully operate and as long as we have access to capacity, the impact should be minimal. For clinical progress, I think here the major advancement that we expect is from Bayer in P2X3, where I think, here the preparations are ongoing at full speed at Bayer. So therefore, we are quite confident that these clinical trials will go forward and we only expect here a Phase 3 entry milestone, which might not come in 2020 but might come in 2021. So also here from this portfolio, the impacts seems limited for our current planning. And coming back to IP and Asian customers maybe here, Craig, if you could give us more flavor on the dynamics that we see.

Craig Johnstone, Chief Operating Officer

Sure, no problem. Yeah, thanks for the question and you referred in your question to a new environment. I mean, I think, we also see this new environment, but we feel that we've been in this for some years already. This new environment has existed for five or more years and we feel that we are very much an essential player and are pulling together all of drug discovery and development activities in a very newly academia, virtual biotech, small, medium-large pharma, all user Autobahn to progress the projects. And what they are looking for is high quality, high confidence, high trust and highly effective execution. In terms of -- I don't want to comment on other people's handling of IP, but certainly from our perspective, we feel that we offer a very, very secure and very trustworthy control of our partners intellectual property and at every stage with very high respect and very high control. And as a result then, I think our partners see not just excellence and technical ability, but they also have a high level of trust in what we do.

Enno Spillner, Chief Financial Officer

And I think, to add on this before, I hand over to Cord. Having manufacturing capacities availability in the United States, what we are building with Just Evotec Biologics will be a key component of the future supply chains of many of our partners like you have seen already with Merck Sharp & Dohme taking the option for part of the capacity that we are building there. Craig, maybe you -- Cord, maybe you can give a little illustration of how an Innovate contract is composed.

Cord Dohrmann, Chief Scientific Officer

Sure. So generally, Innovate contracts have -- most of them have in common that we are asking for upfront payments to access programs or licenses to programs. On top of that, we have significant usually research payments as we bring our teams here into usually collaborative efforts, our discovery efforts. And on top of that, then they are very significant milestones and royalty payments. The royalty payments -- milestone payments are usually on the order of EUR100 million to EUR200 millions in terms of early discovery, preclinical, clinical and development milestones but also commercial milestones. And the royalties are usually in the range of solid single-digits to -- into the double-digits royalty rates. And some of these contracts are direct licenses and some of them are option based, where we essentially do all the discovery work, development work and our partner then came up in -- and the opt-in points usually are preclinical development candidate or IND.

Werner Lanthaler, Chief Executive Officer

And maybe to add one sentence here, of course, the dimension of Innovate contract is typically depending on the uniqueness of the signs that we bring into these context here, as we only try to work on first-in-class targets where the uniqueness is very high. And secondly, of course, more competition for unique, as the assets is increasing the value of these assets. And the third aspect maybe is, given the completeness of own platform, we can progress Innovate assets for more or less as long as we want, as long as we can afford that. And secondly, as our platform is available to execute these projects, which makes us, I would say, quite independent from short-term deal necessities that many other, typically smaller biotech companies are facing. Maybe last comment, Enno, if you can briefly comment on the equity portfolio as composed.

Enno Spillner, Chief Financial Officer

Yeah. Absolutely. I mean, consisting out of 14 companies that we have some in our equity portfolio consolidated at equity or just normal consolidation, all of that being minor shareholdings. Everything between 4 and 50% [ph]. We don't have a valuation published for the whole portfolio or single entities out of this. But I can tell you is that over the past years, in total, we have so far invested in equity about EUR52 million on the existing portfolio. And currently, if you look into our notes as well, you will recognize that, despite our only linear amortization took place, no extraordinary events with this regard. So, this is then obviously also a minimum threshold form a market valuation that we have.

Werner Lanthaler, Chief Executive Officer

Thank you. Next question, please?

Operator

Thank you. The next question comes from the line of Falko Friedrichs, Deutsche Bank. Your line is now open. Please go ahead.

Falko Friedrichs, Analyst Deutsche Bank

Good afternoon. It's Falko Friedrichs from Deutsche Bank. I would have three questions, please. Firstly, can you elaborate a bit more on the potential coronavirus effect to your business? You mentioned that all facilities are still up and running, but are you noticing any less demand from your customers currently? And are your supply chains affected in any way and to date? And then secondly, on CapEx, can you give us an indication for what you intend to spend this year and what are the returns you are typically expecting for CapEx investments into the Just Biologics business.
And then thirdly, can you give us a quick refresher on your current debt situation? In terms of what covenants you have and how much you could eventually draw from credit facilities if required?

Werner Lanthaler, Chief Executive Officer

Thank you very much. Question two will go to Enno. Question three will go to Enno. Let me comment on your coronavirus question. So first of all, we see certainly an impact on our supply chains as many other businesses also do it, especially, for example, on raw materials that we are bringing into our business from other suppliers, for example, for chemicals, for example, for other experiments that we are starting. But so far, given a very conscious build of our supply chain, we have not experienced here major disruptions and only, I would say, minor delays, which we think we can compensate over the coming quarters. When it comes to the part of less demand, I think the last 14 days are kind of the shock situation for many people out there, including also, of course, our business. So it's probably too early to have here full visibility of what this will mean. Going forward, one thing is clear on our side. There has been no termination of any contract because of the changed situation of it. On the contrary, we see certain people who want to make additional contracts with Evotec at this stage, but here we have another limitation, which we have to share with you, which is that, given, the current situation, not all our capacities can be brought to full effectiveness on the platform because as per guidelines when it comes to how many people can we have in a lab, how close can people be working together. And so, I think here it's a situation where too early to tell the whole impact, but overall under control. But, of course, we also don't want to hold back that there will be impact on our business going forward. But it's a bit too early to give this a full, I would say, quantitative to mention at this stage. With this on question two, back to the Enno, and the same for three.

Enno Spillner, Chief Financial Officer

Yeah. Pleasure on taking these questions. Welcome, Falko. So first of all, with regard to the CapEx, I think, in 2020, we will have a little bit of a special year as we have our normal CapEx, which will be slightly above what we saw in 2018 but not significantly, which means in translation EUR30 million to EUR35 million and quote unquote, normal CapEx. Normal CapEx means expansion of our site supporting our growth story, but also exchanging equipment that is aged, that is not up-to-date anymore. And then also repair and maintenance, that is all in there. Within this field, if it's bigger investments, which go beyond the couple of hundred thousand or into EUR2 million per project, then we do an internal ROI investment. But there's not a defined threshold here in terms of the fixed number, but we simply have to understand that this contributes positively to our overall

margin and brings the return within the rather ideally short time of period, which should not be too long. So, just a couple of the years, obviously, in the max. With regard to Just, we will have a total of the range of EUR100 million to EUR110 million investment over time period of three years. We have already started in the fall of 2019. So here we will see the major portion of this CapEx in 2020. So, that we should, in total, of the combination of normal CapEx in Just see a total CapEx of north of EUR100 million in 2020. Again, clearly just this year and special situation, which then will slow down in 2021, when we switch into operational mode with the J.POD. With regard to covenants, honestly, we despite having quite a few contracts on the debt side, we don't have any significant covenants with the exemption that once we go beyond a net debt leverage of 3.0, then we would step up a few basis points in the interest rate that we have to pay, that's the major covenants, if you will. We have currently a net debt leverage at the end of 2019 of approximately 1.2, including IFRS calculation. If you take out IFRS, it's been significantly less, which means we have quite a bit of headroom here, if we would have to add additional debt, which is clearly in the range of EUR200 plus million, depending on what we obviously do with the money. And then regard -- and that's -- yeah, and that should answer all your questions. Thank you.

Falko Friedrichs, Analyst Deutsche Bank

Many thanks for the information.

Werner Lanthaler, Chief Executive Officer

Next question, please?

Operator

Thank you. The next question comes from the line of Victoria English, Evernow Publishing. The line is now open. Please go ahead.

Victoria English, Analyst Evernow Publishing Ltd

Yes, Werner, you gave us at least three interesting examples of spin-out companies and I'm wondering what's your aspiration is over the longer term for these companies? Are they vehicle for bringing in new proprietary products into your portfolio? Or are they a capital return type of option? That's the first question. And the second question is about the corona -- COIVD-19. Are you working with any one or just on your own, looking at using AI to repurpose some existing drugs that could potentially treat this disease?

Werner Lanthaler, Chief Executive Officer

So when it comes to the spin-out company strategy, I will hand over to Cord. When it comes to re-purposing, just to give you here a color of what we are doing without going too deep, we are pulling some of the pharma players on our platform to start re-purposing activities and, of course, we are using all potential technologies that are available in a high, high, high-tech drug discovery development environment to find here next-generation possible ways for re-purposing. Having said that, if you think about COVID-19, this is more a long-term idea of optimizing here the fight against viruses in the short run. I think everyone is hoping to have existing drugs that pop up, that we can either use in a different way or in combination at this stage. With this, Cord, if you can comment on the spin-out strategy.

Cord Dohrmann, Chief Scientific Officer

Sure. Thank you for the questions. So the -- our spin-out strategy really is fairly simple. Through our spin-out, through developing or bringing the spin-out companies forward, we have the opportunity to develop Evotec R&D projects all the way to human proof-of-concept. And we can do this, while we are maintaining an equity stake in these companies, therefore, also a stake in the project, of course, that is actually usually significantly higher than your average royalty rate that we achieve through the strategic partnerships at an earlier stage. So, we view this as really an expansion of the Evotec Innovate strategy, bringing projects through the spin-out companies to human proof-of-concept and therefore, increasing the value, while maintaining a much higher stake in them. And on top of that, it's, of course, the -- through the spin-outs, we create specific teams that are build around these projects and perfectly enable them to focus on the task on bringing these projects forward into the clinic and towards human proof-of-concept and potentially even beyond. The exit strategies could be multi-fold, could be the larger partnerships, wherein through these spin-off companies who are also buyouts, where we also position them. Of course, we'll also position these, of course. But overall, it's -- the primary goal is just to bring projects further along the value chain and maintain a higher equity stake in these projects.

Victoria English, Analyst Evernow Publishing Ltd

Thank you.

Werner Lanthaler, Chief Executive Officer

Thank you. Next question, please?

Operator

The next question comes from the line of Patrick Trucchio, Berenberg. Your line is now open. Please go ahead.

Patrick Trucchio, Analyst Berenberg

Thank you, and good morning and good afternoon. First, just regarding the part -- actually, sorry -- just a follow-up first on the J.POD facility. So first, in the context of the COVID-19 outbreak in Washington State, can you speak to the level of confidence that the first phase of the project will be mechanically complete by the end of 2020 with the validation in the first part of 2021? And then, also secondly, how many partnerships could you enter, based on the completion of this first phase of the project? And then finally, how much initial capacity will that facility have and how quickly can it be scaled up?

Werner Lanthaler, Chief Executive Officer

I guess, that's one part of your question. Is that second part of the question as well?

Patrick Trucchio, Analyst Berenberg

Yeah. So, these are all around the JPOD facility. And then, yes, I have a follow up.

Werner Lanthaler, Chief Executive Officer

Because they will go to -- they will go to Craig. If you wouldn't mind asking the second part of your question as well, then I can better distribute them, if that's okay for you?

Patrick Trucchio, Analyst Berenberg

Yeah, sure. So just the second part -- yes, so the second part is just on -- sorry, on the COVID-19 and the 2020 guidance. So, what I'm wondering about is, in terms of the partnered R&D programs, in terms of the Innovate segment, is much of the impact from COVID-19 occurring because of the delay in clinical trials from your partners there? Or is there perhaps also a negative impact on Execute from the perspective of signing new contracts, if not from existing contracts? And then, in the context also of this COVID-19, a pandemic, do you expect Innovate to generate positive EBITDA 2020, similar to the way it did in 2019? Thank you.

Werner Lanthaler, Chief Executive Officer

Thank you so much. On -- I think I'll take the third bullet first because that's the fastest. The J.POD question will go to Craig and the overall R&D Execute guidance, I will also put forward to Craig. So, Evotec Innovate is driven by milestones and milestones are highly unpredictable because of biological use [ph]. So therefore, achieving a positive EBITDA in 2020 or not achieving a positive EBITDA 2020 will depend on milestones, which we typically have visibility only during the year. And they are hard to predict at this stage, but what we can say is that the portfolio of potential milestones event is growing year-by-year. And what we also want to reiterate, it's a long-term value optimizing strategy and not a short-term EBITDA optimizing strategy that we are following within Evotec Innovate. So therefore, if we have a positive EBITDA, it's great. If we don't have a positive EBITDA, we are still competitive. That's how we look at this. What we don't do, also despite COVID-19 crisis, we don't slow down at this stage. If we can bring our R&D investments to the platform, any R&D activities because we are very convinced about, especially our iPSC platforms, our PanOmics platform, our PanHunter platform and other platforms that we are building in Evotec Innovate. And on the J.POD question, I hand back to Craig, and also on the current impact that we see on the Execute signing of new contract.

Craig Johnstone, Chief Operating Officer

Sure. Thanks, Enno. In terms of the -- in terms of the J.POD construction, you're absolutely right, Washington state has some specific challenges, but right now we continue and are continuing with the construction on time and without deviations, so that's growing very nicely. And then you had some questions about the capacity, scale and how the J.POD is structured. I think we maybe need to remind you that the concept behind the J.POD is built on parallel [ph] trends of capacity that can be, if you like constructed rather rapidly and on-demand. Actually, the design paradigm in the J.POD is high flexibility, high agility. And so we are building it to have plenty of capacity for further expansion within the shell and we are building it to be operational, as you indicated in 2021. And with starting capacity that we would be able to accommodate a number of projects and partnerships through that. But really the concept and the philosophies, as new opportunities, new partnerships are struck, then we can, as we call it scale out rather than scale-up by fully fitting out the infrastructure within the J.POD building. So, it's a very flexible, very dynamic and deliberately designed that way to be flexible to increasing demand over time. And -- so I hope that answers the

question. And then on COVID-19, and as Werner has already said, we've tried to give a wide window of guidance because there is a considerable uncertainty here. As we've not seen major impact so far, but we see that there are sensitivities, if you like, in the system and the dependencies -- we have until dependencies on our suppliers and so on and our partners in some cases, then it's really a question of the duration of restrictions rather than a specific threat in any one dimension of our business. So, you asked specifically about clinical trials in Innovate or Execute, what we're trying to do here is manage a question of uncertainty of full capacity and duration of restrictions. And that's why we are finding it, I think, difficult to be as precise as it would normally be, but give a much wider window of over an expected corridor of operation this year.

Werner Lanthaler, Chief Executive Officer

Just to give you and illustrate this by one example. We are -- for example, in our Cyprotex operation in Manchester, one of the largest indicate tox-testing companies on the planet, where a lot of early tox-testing comes from pharma partners biotech partners and foundations, where some of these partners currently have just shut down their operations, of course. This influences the flow onto the Cyprotex platform. The real question will now be, okay, will there be, once these institutions open again, a catch-up? And we can then do this with the existing capacity or will there just be delays in testing of the compounds that then will go through the system? And I think, here we are just illustrating one example of how our network is constructed and where, I have to say, our people are doing an excellent job to manage not only our partner network, but also the internal capacity network extremely well.

Patrick Trucchio, Analyst Berenberg

Yes, of course. Thank you.

Werner Lanthaler, Chief Executive Officer

Pleasure.

Operator

Thank you. The last question comes from Ram Selvaraju, H.C. Wainwright. Your line is now open. Please go ahead.

Ram Selvaraju, Analyst H.C. Wainwright

Hi. This is (inaudible) Balan [ph] dialing in for Ram Selvaraju. Thanks for taking my question. So, I would like to ask three questions all at once. The first one is, what is the current status of EVT201? Is there any hope for a Phase 3 trial and commercial launch? The second question is about Aeovian Pharmaceuticals. I understand that you have developed your preclinical candidate within 18 months from a lead mTORC1 inhibitor. Can you enumerate the gating items remaining to enter into human trials? And what are the pending items that are in your responsibility and what elements are being handled by Aeovian? And the last question, with respect to the Bayer's compound, the P2X3 agonist. We believe there are two more competitors in the space, BLU-5937, and then Shionogi compound. BLU-5937, in particular, has produce best-in-class activity and productivity data. So, what are your thoughts and concerns about these competitor molecules? Thank you very much.

Werner Lanthaler, Chief Executive Officer

Big Pleasure. Okay. I will answer all three questions. So on EVT201, we have information from our partner, JingXin [ph] Pharma in China, which goes back two months now that they are preparing for future clinical trials, if these are then pivotal trials leading to commercialization. And at this stage, not confirm, but long term, they plan for commercial -- commercialization of this target, of course. On Aeovian, we are without consulting our partners, not in a position to comment on the molecule and the future gating situations of this molecule because that's not our policy to do that. And on the third question, I think you should not only mention two competitors, you should mentioned three competitors to the P2X3 compound, namely Merck is the first one, Bellus is the second, and Shionogi, the third. And I think all three competitors together with Bayer are at the end asking themselves the question for chronic cough and the other indication what are the least side effect profiles that the compounds will deliver and that's also something we are -- I will not answer anything that is not coordinated with our type at Bayer, but we are very confident that Bayer is up to a very, very good strategy. Sorry for being a bit cryptic, but that's how we have to handle this question. I'm sure you will understand. With this, let me thank you very much for following our progress of the company. Let me all wish you and your families, your friends and firms all the best of health in these times. Let me ask you to protect yourself and with this, protect the partners around you. And I'm so much looking forward when I can see you all in person and then have in-person discussion by touching each other and discussing very, very lively science and discovery and development progress going forward. All the very best.