



## **Evotec AG**

### **Transcript of the Conference Call**

### **Evotec and Sanofi enter into exclusive negotiations for a major multi-component strategic collaboration**

**03 December 2014 – 9.30 a.m. CET**

**Speakers: Dr Werner Lanthaler (CEO), Colin Bond (CFO), Dr Mario Polywka (COO), Dr Cord Dohrmann (CSO)**

#### **Operator**

Dear Ladies and Gentlemen, welcome to the conference call announcing Evotec and Sanofi entering into exclusive negotiations for a major multi-component strategic collaboration.

At our customer's request, this conference will be recorded. As a reminder all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press the star key followed by zero on your telephone for operator assistance.

May I now hand you over to Dr Werner Lanthaler, who will lead you through this conference, please go ahead, sir.

#### **Werner Lanthaler**

Welcome. My name is Werner Lanthaler, I'm working for Evotec. I am here with my colleagues Mario, Cord and Colin who are the Management Team together with me of Evotec.

It's a great pleasure to welcome you on this conference call. We will conduct this conference call in English, as usual. Let me start by saying that sometimes writing a press release feels that the paper is too short to write everything about an alliance as we have built it with Sanofi. Let me just first give you the highlights of this innovation alliance that we have built and where we are now in final exclusive negotiations.

This is an alliance which has multi high-value initiatives for EVT Execute and EVT Innovate to build especially a pipeline that is initially focused on oncology projects with a significant upside for Sanofi and Evotec together. The alliance will bring a guaranteed commitment of Sanofi over the next five years to Evotec and the alliance will also include a sizeable upfront payment which will come to Evotec in the first half of 2015.

If you go to the presentation which we have put online and follow me, please got to page number 5, where you will see the big initiatives that we have put into this alliance where the overriding goal is to improve innovation efficiency. The elements of this alliance are very clear to focus on the key strengths of both companies together and ultimately build a better Sanofi and build a better Evotec and do what we are supposed to do, make more efficient, better medicines for the people out there that we work for.

So, initiative number one is a pipeline-building collaboration especially in oncology. The elements here, and Cord will then elaborate on all elements a bit further, is that we build a pipeline together of pre-clinical oncology and discovery projects at this stage where the projects are initiated or were initiated by Sanofi and will come over to Evotec and we will progress them to their optimal value points. The second aspect that we plan to initiate is a collaboration on our Cure X and Target X



initiatives with a special focus also on oncology. Thirdly, in this part of the collaboration, Sanofi and Evotec will generate a huge scouting initiative by basically going after scientific projects with a focus in the academic world in France and later on also in Europe. This is an initiative which we have already initiated in the United States, for example Evotec conducting alliances with Harvard and Yale at this stage, when it comes to academic bridging to Pharma.

The second part of the alliance is a huge outsourcing alliance. Here, we transfer basically the scientific operations within the excellent operation in Toulouse to Evotec and will then conduct services from Toulouse to customers where the first customer will be Sanofi but where we will also bring in other customers into this site. A special feature will be the build-up of a state-of-the-art compound management operation out of Toulouse for the European market where Evotec is leading at this stage already the US market and is the global leader at this stage. We will also put a Master Service Agreement in place which will be conducted over five years.

One element in the third initiative that we want to highlight is really a pioneering innovation. Combination of two libraries in the pharmaceutical space where Sanofi's global screening library will be made available for screening to Evotec's customers where we will be able to use both libraries for biotech academic and also other Pharma customers. Mario will elaborate on this initiative further later on.

When you look at Evotec today on page number 6 of your presentation, you should appreciate that we have built this company with a large footprint globally. Our footprint at this stage indicates to us that our capacity is extremely well-utilised and in many sites we are full when it comes to our capacity needs and we already see, for the foreseeable future, a very nice growing demand. So capacity increase was one of the key strategic drivers for us to look for solutions, how we can go about building scientific infrastructures and expanding scientific infrastructures into the Pharma world. With this contemplated transaction we will be able to generate a step function by building up our staff, from at this stage about 650 scientists to about 860 scientists with people from Toulouse who are excellently qualified to fit into the drug discoveries space which is the core competence of Evotec. Let me also highlight when it comes to our footprint that our growth, at this stage, is strategically coming out of the United States where we conduct multiple alliances especially with US Biotech companies and US Biotech academic institutions where we conduct our services and our joint discovery projects, very often out of Europe, into the US. So we are proud of the US ecosystem of biotech and Pharma at this stage which makes this bridge between Europe and US very, very efficient and high-quality driven.

When it comes to another highlight of our footprint, it's worth saying that we have built a very, very quality-oriented organisation where everything that counts for us is the product and the quality of the product to ultimately improve innovation, efficiency and that's why we have, at this stage, a very good response from the market and also from a lot of global Pharma companies. When it comes to global Pharma companies and the mega-trend that we are seeing, and it's highlighted on page number 8 of your presentation, we see that strategic outsourcing and the improvement of R&D productivity is a mega-trend in the Pharma industry and is a mega-trend in the industry where you see that Pharma, biotechs and drug discovery organisations like Evotec continue to search for new models to work better together. These models are driven by one element which is an increase in comfort with outsourcing, so many Pharma companies who were initially quite reluctant in joining forces with outside companies, are increasingly feeling comfortable with companies like Evotec to share discovery projects.

The second mega-trend here is that you see that through efficient co-operation you can come to a higher R&D capital efficiency and here we are very often aligning our performance-based compensation with incentive systems along the product chain which allows both parties, Pharma companies, biotech companies and Evotec to ultimately participate on the success of products. The third element of outsourcing and innovation outsourcing allows Pharma companies and also other companies to adjust their speed proportion to their portfolio needs, ongoing success and ongoing funding situations in the market. This is where Evotec plays a solution role for the Pharma industry and also for other players in the industry.



When you look at page number 9, we have built this idea into our long-term strategy. Building a strategic product pipeline where we share development risks supported by discovery services and profits, that's our long-term strategy which is truly long-term because we start in the discovery space but ultimately want to be together with our partners up to the market and then join the earned royalty rates out of products that come out of our shared pipeline. On that note it was a great step to see Sanofi moving into a more externally driven strategy especially when it comes to small molecules and it's a big compliment to Evotec that Sanofi chose Evotec to build here a larger footprint in the small molecule outsourcing space together with Evotec which fits exactly into our strategy as outlined on page number 9. When you look at what we planned to do into the year 2020 where the idea of building, for example, early Cure X and Target X initiatives together with Pharma companies is exactly where Sanofi found, in Evotec, a right partner.

On page number 10 of the presentation, you should appreciate that Evotec is built as a company with two segments. Segment 1, what we internally and also externally call EVT Execute is highest quality and most capital-efficient drug discovery outsourcing platforms and infrastructures. Here, there's a perfect fit of the research infrastructure within the Sanofi infrastructure. In the second element is building projects where we start with early-stage targets, very often from academia, and try to bridge these projects into Pharma pipelines – that's the element in the company that we call EVT Innovate. The two leaders of these segments will now guide you through the elements of the transaction and the influence in their respective segments.

On that note, on page 11, I'd like to hand over to Mario to tell you a bit more about the initiatives and how they impact our EVT Execute business segment.

### **Mario Polywka**

Well, thank you Werner and good morning to everybody. Well, it really is an absolute delight to be able to be taking part in this webcast and telephone conference announcing the final negotiations for the significant collaboration with Sanofi. It really does represent a perfect match of capacities, of high-quality capabilities, of people and, of course, welcoming a new strategic customer to Evotec.

The integrated drug discovery site in Toulouse which has approximately 210 scientists will transfer to Evotec and represents an important step in our strategy to be the industry leader in delivering best-in-class drug discovery solutions. That also brings with it a quite urgent need for Evotec for capacity to fuel the growth of both the EVT Execute business and the EVT Innovate business. Through this site, we'll provide our partners with a broad range of drug discovery services, we'll expand our screening, our chemistry and biology capabilities but we're also very excited to add some new competencies to the drug discovery value chain that we bring to our partners, such as protein and antibody therapeutic production, early chemical developments such as salt selection, chemical form analysis. Also it's a fabulous opportunity for us to establish our European compound management operation which will supplement the operations and facilities we already have in the United States.

As part of the far-reaching MSA and collaboration we have with Sanofi delivering to them of a wide range of drug discovery services, this will include the management of Sanofi's corporate global chemical screening library.

If we move to the next slide, it really is a ground-breaking development that we've been able to develop an open innovation initiative by combining both Evotec's high-quality screening library with Sanofi's 1.3 million compound library and to make this available to third-party screening. Partners will be able to access what they feel is now the most substantial open innovation screening library initiative. A tremendously valuable asset that cannot be accessed anywhere else in the industry outside of big Pharma. The way this will happen commercially is partners will have the choice to screen the Sanofi library, they will have no obligation to continue to develop hits from the libraries unless they want to and once they do, and opt into the agreement there is a very small fee to be able to access those hits and develop and drive them into drug discovery programmes. Sanofi plays no part



in any subsequent development of these programmes but there are some small commercial terms later on in the agreement.

This, as I said, is ground breaking, we think it's the first in the industry and we're very pleased that Evotec can now bring to our partners the most valuable hit identification source to the industry. So with this, I'd like to pass onto my colleague, Cord Dohrmann, who will tell you about the aspects of this significant collaboration in the EVT Innovate business segment of Evotec.

### **Cord Dohrmann**

Thank you, Mario. Good morning, everybody. So I will take you through how this alliance will support and also accelerate our EVT Innovate strategy. On page 13 of this presentation, you can see our current pipeline of product opportunities that we share with our partners that we have grown over the last few years. This pipeline is currently specifically in the pre-Clinical and also discovery stages still predominantly based on product opportunities in the neuroscience stage including pain and inflammation but also diabetes and diabetic complications. However, we have decided a number of years ago that we see potential growth opportunities for Evotec in the oncology space and are also trying to build a pipeline in this area to fill in this product opportunity pipeline.

On the next slide you can see our current focus areas for EVT Innovate which are essentially focused in particular three areas. The first area is still diabetes and complications, then a second area is neuroscience and the third area will be oncology. In the oncology space we have initiated opportunities and projects in the field of epigenetics and cancer immunotherapy and through this transaction we will add significant number of projects that are targeting the tumour environments and are therefore an excellent fit to our current pipeline in this space.

The next slide, page 15, you can see our current opportunities in the oncology space that we have put together over the last few years. Here, in particular, I'd like to point out that we already have a number of existing alliances for example in the epigenetics space together with the Dana Farber Cancer Institute, in the cancer immunotherapy space with our colleagues Apeiron working in this space and together with the Yale University in DNA break repair mechanisms.

What this alliance is adding to this portfolio is quite significant. This alliance will add five pre-clinical oncology efforts that can be taken forward to IND. It will also add an extensive pipeline of multiple early-stage project opportunities and that will nicely complement our efforts in these areas.

On the next slide I just want to highlight the pipeline of most advanced efforts that will be brought into this alliance to Sanofi, this is a pipeline of highly exciting portfolio targets and compounds, in particular, the target of tumour microenvironment either through small molecules or antibodies. All of these projects are based on extremely well-validated targets and mechanisms that all have first- and best-in-class potential. We intend to bring these pipelines forward to IND stage up to 2016/2017 and thereby not only complement our pipeline of oncology partners but very much accelerate the product opportunities to molecules that can enter then into the clinical space.

With this, I'd like to thank you and hand over to Werner Lanthaler.

### **Werner Lanthaler**

Thank you very much. When you build such a multi-component strategic collaboration, very often parties sit together and say, okay what's the right thing to do in the long run? On that note a big compliment to our partner Sanofi who really was very strategically thinking what we can do to energise the biotech environment within Europe and to energise also this collaboration into the long-term future. In order to energise, we have basically proposed to roll out what Evotec has initiated in the year 2010 to build academic bridges from academia top institutions to the Pharma industry into a broader environment. What we now call the French academic bridge is in essence the idea to energise



multiple projects into this bridge that we want to build together with institutions throughout France and throughout Europe in the long run. This is an initiative which will be funded by Sanofi without initially taking any commercial rights which is, of course, very good for being hugely systemic and unbiased for both, for the academic institutions and also for Evotec, by running this. We also hope here that through energising the academic project world we will, in the long run, also energise our Toulouse site that we want to basically fill with projects coming out of this initiative.

Let me at that point summarise and bring a bit the financial dimension into this conference call and then open for questions. On page number 19, you should appreciate that with the guaranteed commitment of € 250 m over the next five years, we will, of course, have a sizable increase of our cash position within Evotec. We will have a sizeable improvement of our profitability and we'll have a sizeable improvement of our overall footprint when it comes to our ability to provide also infrastructures because there is extremely well-kept Capex that we will be able to access through this transaction within the site in Toulouse.

When it comes to building the value through the pipeline it is, I think, key when it comes to the time beyond the five years. Here, adding an excellent team with oncology expertise is a step function for us to build a long-term pipeline which will start with the five pre-clinical well-advanced projects that we will be handing over into the pipeline, getting it out of Sanofi into the Evotec pipeline, and there's also a large number of other projects that we want to progress out of the Toulouse site. Actually, all projects that are at the Toulouse site we want to progress going forward.

Expanding the academic bridge is something that I think you should all appreciate as an effort for the long run and together we have started to work on this and try to convince everyone to now close this transaction as soon as possible because there is no reason to wait and not to implement this initiative so we are very certain that we will close early in 2015 so in the first half of 2015 and with this I'm very proud to say that Evotec can add Sanofi to its strategic customers and build a fantastic site in Toulouse.

On that note, let me please hand over to you for questions on this call.

## **Operator**

Ladies and Gentlemen, if you have a question for our speakers please dial zero one on your telephone keypad now to enter the queue. Once your name has been announced you can ask your question. If you find your question is answered before it's your turn to speak, please press zero two on your telephone keypad. One moment please, for the first question.

The first question comes from Igor Kim from Close Brothers Seydler. Please go ahead your line is now open.

## **Igor Kim**

Hello everyone. First, congratulations on the exciting deal. I have a couple of questions. The first one in terms of IP that you will generate with Sanofi, could you shed a bit more light how will you handle this aspect? How will you share the ideas? Who will retain it?

The second question is could you shed a bit more light on what is the capacity utilisation of Sanofi? You said that your own capacities are mostly utilised so could you shed a bit more light in this regard?

The third question, are there any one-off expenses that you expect in the next year as a result of the integration of all these processes? That's the three questions, so far, thank you.

**Werner Lanthaler**

Thank you very much, Igor. IP goes with the projects and will always go with the projects so where the project comes from there sits the IP and if the project goes to another partner and is progressed forward with another partner, to be licensed the IP to the other partner so there should not be any confusion or any problem in that regard and that's just the way as we act with any other partner over the last twenty years at Evotec that IP goes with the project as you progress, so that's an easy one and no one should be concerned about that.

When it comes to our capacity utilisation, as already mentioned, we are getting to the limits of our capacity that we have built within our current Evotec footprint. We are adding fully integrated sites and we do it now, of course, is a huge saving for us in the long run because we access fully integrated sites where building a site like this would go way beyond the number of € 50 m that you should assume for funding of that. We don't buy the Toulouse site, so let's be very specific on this one. We acquire the scientific operations and with this we can use the scientific operations, they're on a long-term lease agreement so no fixed cost on that but only on a variable cost basis we would be a long-long-term customer of these existing facilities.

Which comes to your third element of the question, we don't expect huge one-off items but of course there's significant transaction costs that you will see through this year despite the second Evotec was very, very efficient in that transaction and you will also see some one-off expenses but nothing that in the big scheme of this transaction will make a big impact.

**Igor Kim**

Okay, thanks, very clear. Thank you.

**Operator**

Thank you. As a reminder, if there are any questions please press zero one on your telephone keypad. We have a further question from Mr Heinz Müller from DZ Bank, please go ahead.

**Heinz Müller**

Good morning, Heinz Müller speaking. I have two questions, the first one is perhaps you can give us some explanations why Sanofi is divesting its qualified researchers, so to say its competence, and perhaps give us an indication about the R&D expenses you expect in the future. The second question is could you give us some distribution of the € 250 m over the next five years? Thanks.

**Werner Lanthaler**

Thank you very much. Sanofi was very clear in the strategy and that also, by the way, initiated the discussions, that they want to build a strategic plan which basically is balanced from large molecules to small molecules on a 50/50 range, so by building a large alliance with Regeneron, at this stage, you will see the strategy to access large molecules, namely antibody, into their pipelines and on small molecules they have built, over time, a very strong pipeline. So in the early discovery phase you see that basically they have projects where the 50/50 strategy was really leading to a prioritisation within Sanofi. What can they do? What do they want to do? How do they want to progress these projects? One idea was to work together with an organisation where they then co-own this project, I think, that's the fascinating idea about also innovation and core operating for innovation. For example, Sanofi, by handing over their five pre-clinical assets they will downstream, if we have successful business assets, also access royalty rates and milestones out of these projects. So they gain, we



progress and we also gain, that's the classical win/win situation that was the driver in this innovation outsourcing idea.

On the site: Some of the people are very specific and to the investment idea of some of the capacity in France was publicly announced about two years ago where some of the people were also clear that they had build too much capacity in certain sites, which they wanted to strategically no longer use and that the advantage and the opportunity that Evotec is taking now.

When it comes to your second part of the question, Evotec on our current EVT Innovate strategy does not intend for 2015 to significantly increase our R&D spend but we will basically go along the projects as we have defined them and add significant project also here but it will be somewhere in the range between € 10-15 m as we have done this also 2014. In 2015, what we will add are the R&D expenses on the Sanofi efforts but here you should appreciate that all cover in all its costs by Sanofi at least over the next five years.

When it comes to the distribution of the € 250 m depending on when we will finally close, but I think you will not see the full impact of the € 250 m in the year 2015, let's assume somewhere in the first half of 2015 we will close so starting with latest the second half of 2015 you will see the impact on the top line and also on the bottom line of this transaction where I think it's fair to assume that this will be an even split of the € 250 m in the year number 1, 2, 3, 4, 5 and hopefully then going long forward as well.

#### **Heinz Müller**

Thank you.

#### **Operator**

The next question comes from Mr Mick Cooper, Edison. Please go ahead your line is now open.

#### **Mick Cooper**

Good morning, a couple of questions. First of all can you give us some more details on the large molecule capabilities that you gain through this deal with Sanofi and also can you give some indication of what impact this could have on, or expectations for, other deals with large Pharma. Is this actually going to facilitate or hinder further deals do you think?

#### **Werner Lanthaler**

I will hand over for the large molecule question to Mario then, but let me take your second question first. I think it will attract significantly more customers to Evotec than less and it will not have any negative impact because, don't forget, this is just another customer in this collaboration that we are adding to the portfolio as Evotec is running it at this stage. Let me, for example, highlight our collaboration with Bayer which is significant when it comes to the pain and endometriosis field let me highlight our long ongoing and standing partnerships with Janssen, with Boehringer Ingelheim and with Roche. At this stage, Evotec is collaborating with 12 out of the top 20 Pharma customers where I think the impact of this deal will show to our strategic customers that we are ready for larger transactions and not only for single project deals. That's one thing, also an expectation and that's where the trend in the industry is visible at this stage that when it comes to strategic outsourcing many companies are looking for larger solutions and not smaller solutions and for example if you look at the recent trend in the outsourcing world, where Covance was acquired by BioLab or where Charles River acquired BioFocus, you see the idea and the positioning of Pharma versus its outsourcing partners that everyone is preparing for larger solutions that we want to provide because it's just more



efficient. So, on the second question again, I expect a very positive effect in the industry and I probably also wanting to mention that Sanofi is a partner of Evotec, it's not the owner of Evotec. We are a fully independent company and that's the way how we operate with our customers and our partners.

Mario, may I hand over to you on the large molecule question?

**Mario Polywka**

Yeah, sure. Good morning, Mick, hope you're well. Well, I think, as you know within our current Evotec operations we have a significant capability in approaching production both in Germany, UK and also in the US where we serve a number of pharmaceutical partners delivering protein primarily for small scale structural biology. One of the things that this collaboration brings to us is a much larger scale protein and even antibody production facility which goes up to hundreds of litres. It's not huge, by any stretch of the imagination but, you know, it could produce grams of proteins or antibodies so it gives us the opportunity to perhaps move into a new business line of producing the early-type scale of protein therapeutics and antibodies. It was operated as a GMP facility in the past so there are options perhaps for us to move down that way but I think, more importantly, it just brings us a capability in large molecule therapeutics that we don't have and we realise that with the rest of the infrastructure we have within the organisation a move into this area is probably inevitable for us.

**Mick Cooper**

Werner, can I just follow up on my second question. With regard to the Cure X initiatives, am I right in thinking that Sanofi will have first rights to opt in to them but if they don't opt in then you're free to find another partner for them?

**Werner Lanthaler**

No, that's incorrect, Mick, sorry. There will be no commercial rights attached to the academic bridge but of course as Sanofi is funding is they will be very close in collaborating with initiatives and we will have an open dialogue with them. There are no commercial rights attached to it.

**Mick Cooper**

Okay, congratulations with the deal. It does sound a very exciting future for you.

**Operator**

Thank you, the next question comes from Thomas Schießle; please go ahead, your line is now open.

**Thomas Schießle**

Yeah, thank you. This is Thomas Schießle from EQUI.TS calling. Yeah, congratulations on this really smart deal indeed and the questions I would like to raise are coming to the capacity you are gaining in Toulouse. How much of the name plate capacity you are gaining is really free for proprietary use for Evotec activities and which is captive use by your partner Sanofi? Is there any change in this relation coming in the years to come?

Second question is how much is the capex you will have to pay for to get the integration done within the existing Evotec network, IT especially and so on and so forth?





Third question, if I may, is on the option to extend the collaboration beyond the five years' time span? Is this unconditional or a conditional extension and option to extend the treaty.

The last question would be on the indication of your collaboration. You are gaining five pre-clinical projects out of the oncology phase that is quite interesting; on the other hand Sanofi is quite struggling on the diabetic space. Why not sharing powers and doing some discovery work in this space? That's all I would like to ask for the first round.

### **Werner Lanthaler**

If okay on the fourth question I will give you an answer on the first question, I will hand back to Mario on the capacity and on the second question I will hand back to Mario on the capex and integration needs at this stage.

When it comes to the time beyond the five years, let me be specific here, there are all partnerships that we have done in the last years where the true element is in the making of the collaboration and that's where it's not needed to have an option or whatever in an agreement like that. What is really needed is do these two organisations in the first years click and it really is a smooth process where the idea of innovation efficiency is really something that is felt by the two organisations. I think that's the spirit how we enter that, that's why there is no long-term plan for year number five now. We just know that it's depending on how we work in the strategy. I think the mega-trend of innovation outsourcing will be there for a long, long time but what is definitely captive, I would say, in the long run is the idea of the shared open innovation initiative on the library. That's something where there are so many elements in this collaboration where we will have very, very long and very good ideas and initiatives that should bring for us a decade and further but again the proof is in the making and that's how we approach the whole thing. Sorry, for being so long.

Let me, on the indication also indicate to you never say never and also here we are fully aware of our trends in diabetic complications and diabetes and that's also something where we are very specific that we say we are a partner of many pharmaceutical companies, one of them is Sanofi. If Sanofi is interested in Cure X initiatives, in the field of diabetes, we are happy to show them to them and happy to share it when we are out there, we list initiatives and when we are setting these initiatives so that's a thing to strategic approach here.

On capacity and capex, if I may, I hand over to Mario.

### **Mario Polywka**

Thank you, Werner. Good morning, Thomas. Well, I think we have work to do, first of all about integration capex and let's answer that question. We have approximately three or four months to the closing of this collaboration where there is a lot of work to be done on integration. You can appreciate that it can't all be done during the negotiation of the transaction so we'll give you an indication of what that is. We don't feel that it's going to be substantial; it's a very strong and operational site there. We have a very strong infrastructure here and it's a case of clipping them together.

In terms of the capacity as we said, we'll be acquiring significant chemistry and biology laboratories, 200 people in the first instance. More than half of that will be immediately utilised within the partnership and, of course, we're already working and developing our ideas for expanding our business which we have anyway from the organic growth of our business and we'll look at mix and matching capabilities and capacities throughout the whole Evotec Group. I think an important thing to say is within this transaction and what we're accessing now in Toulouse is the ability also to expand so it's certainly that we would anticipate to expand within a couple of years and we have already the infrastructure there to expand at minimal capital outlay, so in that sense it represents a tremendous opportunity for us.



**Werner Lanthaler**

The non-diluted growth capital opportunity, which I think is also very good for the whole industry to see that it's possible.

**Thomas Schieble**

Thank you, gentlemen.

**Operator**

Thank you, the next question comes from Michael Higgins from Highline Research, please go ahead.

**Michael Higgins**

Thank you, Operator and good morning, guys. Congratulations on the deal. Can you hear me all right?

**Werner Lanthaler**

Now, we hear you again, yes.

**Michael Higgins**

Okay, very good. A couple of questions, first off, just trying to understand the current cost basis for the Toulouse Operation, the € 250 m over five years, does that essentially cover the cost? It sounds like it does. Will the current cost be somewhere in that € 40 m to € 50 m range on an annual basis? Also, the accounting for this. How does the accounting work? Which segments of the cost go to – is this a mostly EVT Execute with some overlapping on EVT Innovate? I think we understand how the revenues work, just trying to understand the cost piece of that.

Also it sounds like the € 250 m is split fairly evenly over the five years following the upfront but is there a contingent basis upon the performance? Is there anything tied to the number of employees? Also, well I guess we'll stop there, thanks.

**Werner Lanthaler**

Well, let me comment first on the performance, on the cost base I'll hand over to Mario then again but if there is positive performance meaning meeting certain milestones or certain commercial agreements or deals then that's all upside. So you should appreciate the € 250 m guaranteed commitment is guaranteed and if there is a performance element that we see in hitting milestones and, and, and – that's all on top of that. We don't expect other products, at this stage, within the next five years that there will be a royalty income of the current products but that would all be upside and that there are huge milestone cascades behind all the projects that we are working on, is something that is, in that way, not communicated but that's what you should assume behind every project that we will touch on together.

Mario, do you want to take an answer to the cost base?



**Mario Polywka**

I'll just start but probably hand over to Colin. I think it's important to understand that this commitment over the five years is not just a coverage of cost base; this includes collaborations between the two companies as Werner has already said. Accessing Evotec's Cure X and Target X initiatives, it includes an MSA, you know, and discovery services profitable co-operation so I don't think you should assume that commitment is just about cost coverage. Colin, perhaps you'd like expand?

**Colin Bond**

Just to say that part of the upfront obviously covers liabilities in the company plus cost coverage for the first nine months. That's the basis of the upfront . So we assume obviously when we take over the site quite a lot of financial liabilities, that have been accrued in respect of employees and those are fully compensated to us at the date of the transaction and in addition we get the first nine months cost coverage upfront and that's the basis of the initial payment.

**Mario Polywka**

It's important to say that the coverage doesn't change once the transaction is closed on the number of people so it's set from when we start the transaction and then it doesn't change after that.

**Michael Higgins**

Okay, that's very helpful, thanks guys.

**Werner Lanthaler**

Maybe another element to that is that from the initial integration ideas we will also be able to recruit new talent into the facility and that's also the plan but also here we don't expect huge additional costs because we think that will be all the productive costs from day one when we hire into the new the site.

**Michael Higgins**

Is € 40 m a reasonable estimate for the current operating costs of the Toulouse facility?

**Werner Lanthaler**

Probably less.

**Michael Higgins**

Thank you.

**Operator**

Thank you, the next question comes from Nuala Moran from BioWorld Today, please go ahead.



**Nuala Moran**

Good morning. You say that the deal is not signed yet and I just wondered if you had any concern that the new CEO at Sanofi might want to vary the terms or put the deal on hold. I mean, it's obviously a big strategic move for Sanofi.

**Werner Lanthaler**

I think the answer here would be that this is something which is not the intention of one individual or two individuals. This is a major strategic commitment of a large industry player so the intentions didn't change when Viehbacher left the organisation. It was a strategic decision from the very beginning when we started the talks.

**Nuala Moran**

Okay, thank you.

**Operator**

Thank you. There are no further questions, I hand back to the speakers.

**Werner Lanthaler**

Thank you very much. As I said at the beginning, this is something where we are very happy to show that the idea of strategic externalisation of innovation is ground breaking for bringing partnerships of the Pharma world together with drug discovery companies like Evotec so we think that also in the long run we will benefit a lot from this and you will hear a lot out of this collaboration.

Let me, as a last sentence also tell you, of course, we are fully focused on our daily business and we know what we have to deliver on our daily business and that's something which has not suffered by focusing on this deal because we are taking this very serious that we have to deliver on all projects that are currently running and we will report back to you on that note, also shortly. All the very best.