

EVOTEC BioSystems AG

First Quarter Report 2000



To our shareholders

May 15, 2000

In the first quarter 2000 the EVOTEC Group made significant progress through a number of important technological achievements:

Hardware delivered to Pfizer. In March 2000 we shipped all modules of our proprietary EVOscreen® system for high-throughput drug discovery screening to Pfizer's research site at Sandwich, UK. They are currently being installed. Immediately prior to that delivery, our development stations for miniaturized biological assay systems successfully passed extensive factory and site acceptance testing. This equipment is a prerequisite for developing and optimizing innovative test systems for subsequent high-throughput screening on the EVOscreen® system. Complete assay development stations are now being used at Pfizer's research sites in Sandwich and in Groton, Connecticut, USA. Teams of both companies are cooperating closely to integrate all EVOscreen® systems and instruments into Pfizer's screening units.

Milestone in the cooperation with SmithKline Beecham achieved. With the completion and delivery of the prototype of the new 1536 FCS-compatible Nanocarrier plate in March 2000, EVOTEC has achieved an important milestone agreed with SmithKline Beecham in time and received the respective payment. In our opinion, the plate far exceeds all current products on the market in its optic quality. It will come into use in EVOTEC's Mark III version of EVOscreen®. Mark III will provide technological advances in cellular assay systems and is being built as an open system architecture permitting the integration of external readers and components.

Progress in the collaboration with Novartis in the field of on-bead screening. We have continued our collaboration with Novartis in the field of on-bead screening at their research institute in Vienna. On-bead screening is the testing of active substances on small polymer beads. EVOTEC has installed an advanced PIKKOscreen unit in Vienna permitting fully automated on-bead serial screening. PIKKOscreen is a very efficient screening method allowing pharmaceutical researchers to rapidly and effectively screen 20,000-40,000 on bead substances overnight. It can be used as a means to very cost-effectively identify hits and to verify the significance of a potential target for a given disease (target validation). After extensive beta-tests the research on this equipment will be taken up in the second quarter of 2000.

Quantum leap through new technology for simplified and highly precise testing of receptors. EVOTEC's group "Innovative Biological Technology" has developed a new generic assay method which can simplify and dramatically enhance the precision of screening membrane resident receptors, especially GPCRs (G-protein coupled receptors). Approximately 60 percent of all drugs currently on the market work against GPCRs. Hence, this target family belongs to the most important in pharmaceutical research. The genetic modification of a natural process enables the production of particles of homogeneous size carrying receptors (GPCRs) in high concentration on their surface. They can be produced quickly and economically and can be stored over a long period of time with no degradation. The power of this solution: receptors may now be tested in their natural environment, without other elements of the cell surface interfering with the signal. This approach combines the advantages of cell based assays (proximity to the natural environment) with those of biochemical assays (robustness, low cost, etc.). EVOTEC's own FCS+plus technology with its single-molecule detection is ideally

suiting to allow a special selection precision and quality of data. This gives EVOTEC a substantial competitive advantage compared to other conventional methods of GPCR-screening. EVOTEC will commercialize this novel technology to pharmaceutical partners through its service business.

First screening contract with a royalty component on marketed products completed. In March 2000 EVOTEC announced its collaboration with SUGEN/Pharmacia. Within the framework of this collaboration EVOTEC tests SUGEN's compound library for potential drug candidates against five defined phosphotyrosine-phosphatases. This target class is of great importance for the identification of new cancer therapies. By closing this contract, EVOTEC has for the first time demonstrated its ability to exchange the use of its technologies in a service collaboration for royalty payments on successfully marketed drugs in addition to the typical payments for assay development and screening runs.

EVOTEC will propose a 2:1 stock split. EVOTEC BioSystems AG had its stock listed on Neuer Markt, the high-tech segment of the Frankfurt Stock Exchange, 6 months ago. During this period the initial offering price of Euro 13.00 per share has been increased nearly ten-fold. Because of this rapid rise EVOTEC management decided to propose to the Annual General Meeting on June 26, 2000 a 2 for 1 stock split. The purpose is to increase the liquidity and trading activity of EVOTEC shares by doubling their number.



Financial Report

Revenues. In the first quarter of 2000, EVOTEC Group revenues rose 139% over the same quarter of 1999 from DM 1.7 million to DM 4.1 million. DM 3.6 million resulted from EVOTEC's Drug Discovery Tools and Technologies division, including technology development and transfer agreements with EVOTEC's pharmaceutical partners Novartis, SmithKline Beecham and Pfizer and the sale of instruments. The remainder resulted from Drug Discovery Products and Services. The Tools and Technologies division recorded DM 2.6 million revenues from technology developments and DM 1.0 million from the sale of instruments (including EAS).

Personnel. During the first three months the number of employees rose by 6 to a total of 234 employees. This underlines our objective to grow EVOTEC's business by providing high value services to pharmaceutical companies. To attain this objective the focus has shifted from hiring additional employees to transferring experienced researchers and technicians particularly from assay development into our Drug Discovery division. Hence, the growth rate for new employees has been significantly reduced, a trend which will hold in 2000. We expect to employ a staff of not more than 280 by the end of the year. On March 31, 2000 EVOTEC BioSystems AG had 190 employees, EVOTEC Analytical Systems GmbH 25 and EVOTEC NeuroSciences GmbH 19.

Research and development expenses. Research and development expenses increased in the first three months by 53% over the comparable period of the previous year. This is mainly the result of the additions to the workforce we made last year to increase our expertise in R&D. Building our target related business in the Drug Discovery Division and in particular EVOTEC NeuroSciences GmbH have been the focus of our expansion in R&D.

Operating result. Compared to revenue growth (+139%), operating cost have increased substantially less, growing from DM 7.6 million to DM 12.0 million or 57%. Operating loss increased as expected compared to the same period of last year by 33% to DM 7.9 million reflecting strong spending on research and development. SG&A rose by 42%, slightly higher than overall expenses mainly as a function of increased spending for business development and investor relations. The deficit for the period was DM 6.6 million, increased by 20% up from the comparable period in 1999.

Investments. In the first quarter of 2000 investments totaled DM 1.6 million. Additions to Fixed Assets, in particular investments into EVOTEC instruments to equip our own research labs and the set up of our screening system EVOScreen® Mark II in Hamburg accounted for the larger part of capital spending.

Cash flow and liquidity. Negative net income, build-up of inventory in the context of Mark II systems being finalized and a reduction in accounts payable and deferred revenues led to a negative cash flow from operations of DM 7.1 million during the first quarter of 2000. In particular, the exercise of the over-allotment option in the context of EVOTEC's IPO generated additional funds of DM 15.1 million. In total, cash, cash equivalents and investment securities increased from DM 112.4 million by the end of 1999 to DM 118.9 million by March 31, 2000.

EVOTEC Key Figures

	1999	2000	+/- %
Revenue	1.7	4.1	138.7
R&D Expense	5.0	7.7	53.0
Loss from operations	(5.9)	(7.9)	33.4
Employees at the end of March	156	234	50.0

Financial Structure of technology development and transfer agreements

Partner	Contract Period	Volume	Revenue achieved
Novartis	4/96-12/99	20	17.0
SmithKline Beecham	12/96-12/00	30	20.5
Pfizer	6/99-6/02	30	6.1

in DM million

Outlook. During the second quarter, EVOTEC's focus will be on the installation of the EVOscreen® systems at our customers sites and our own site in Hamburg. Two EVOscreen® systems will be set up for site acceptance during the second quarter, including our own system to provide the capacity required to generate adequate revenue in the service business. Two more systems will start operating in the third and fourth quarter of 2000. The activities in sales and marketing are being significantly increased. Negotiations with customers and new collaboration partners will be completed during the current financial year. We assume that like in the first quarter, we will realize significant revenue growth for the entire fiscal year.

Condensed Consolidated Statements of Operations according to U.S. GAAP (unaudited)

EVOTEC BioSystems AG and Subsidiaries
Deutsche Mark in thousands

	3 months ended March 31,		
	1999	2000	+/- %
Revenue			
– Drug discovery technology revenue	1,709	3,582	109.6
– Drug discovery revenue	–	498	–
Total revenue	1,709	4,080	138.7
Operating costs and expenses			
– Research and development expenses	5,028	7,693	53.0
– Cost of product sales	–	589	–
– Selling, general and administrative expenses	2,618	3,715	41.9
Total operating costs and expenses	7,646	11,997	56.9
Loss from operations	(5,937)	(7,917)	33.4
Other non-operating income (expense)			
– Interest (expense) income	272	876	222.1
– Equity in net loss of affiliate	–	(208)	–
– Other non-operating income	175	575	228.6
Total non-operating income	447	1,243	178.1
Loss before income taxes	(5,490)	(6,674)	21.6
– Income tax benefit	–	–	–
– Minority interests	–	76	–
Net loss	(5,490)	(6,598)	20.2

Condensed Consolidated Balance Sheets according to U.S. GAAP

(unaudited)

EVOTEC BioSystems AG and Subsidiaries

Deutsche Mark in thousands

ASSETS			
	31/12/1999	31/3/2000	+/- %
Current Assets			
Cash and cash equivalents	112,437	16,516	(85.3)
Investment securities	–	102,406	–
Trade accounts receivable	5,470	2,697	(50.7)
Inventories	7,623	8,440	10.7
Other current assets	2,981	5,380	80.5
Total Current Assets	128,511	135,439	5.4
Fixed assets, net	14,787	15,344	3.8
Other non-current assets, net	1,054	1,039	(1.4)
Total assets	144,352	151,822	5.2
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Current portion of long-term loan	1,250	1,250	–
Accounts payable	5,843	4,052	(30.7)
Accrued liabilities	4,400	2,757	(37.3)
Deferred revenues	5,641	7,338	30.1
Other current liabilities	966	2,138	121.3
Total current liabilities	18,100	17,535	(3.1)
Long-term loan	7,500	7,500	–
Deferred revenues	729	292	(59.9)
Other non-current liabilities	11	11	–
Minority interests	76	–	–
Total stockholders' equity	117,936	126,484	7.2
Total liabilities and stockholders' equity	144,352	151,822	5.2

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