

## Healthcare: Biotechnology

# Evotec AG | EVT.GR - €11.66 - FSE | Buy

### Company Update

Target Price Changed

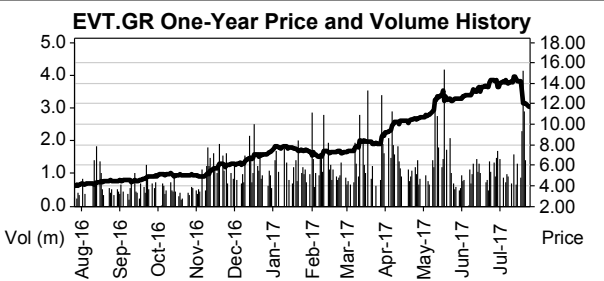
Stock Data					
52-Week Low - High	€4.02 - €14.71				
Shares Out. (mil)	146.67				
Mkt. Cap.(mil)	€1,710.2				
3-Mo. Avg. Vol.	1,302,843				
12-Mo.Price Target	€16.00				
Cash (mil)	€118.3				
Tot. Debt (mil)	€18.2				
Est. 3Yr. EPS Growth	27%				

EPS €						
Yr Dec	—2016—		—2017E—		—2018E—	
			Curr	Prev	Curr	Prev
1Q	(0.01)A	0.05A	--	--	0.05E	--
2Q	0.03A	0.03E	--	--	0.04E	--
3Q	0.07A	0.04E	--	--	0.05E	--
4Q	0.12A	0.04E	--	--	0.05E	--
YEAR	0.20A	0.15E	0.14E	0.19E	0.17E	0.17E
P/E	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x

Revenue (€ millions)						
Yr Dec	—2016—		—2017E—		—2018E—	
			Curr	Prev	Curr	Prev
1Q	37.5A	50.2A	--	--	55.6E	--
2Q	38.0A	42.5E	--	--	47.1E	--
3Q	45.2A	50.6E	--	--	56.1E	--
4Q	43.9A	49.1E	--	--	54.5E	--
YEAR	164.5A	192.5E	172.4E	213.2E	191.0E	191.0E

## EVT.GR: EVT Innovate Partnerships Now Valued; Raising PT to €16.00

Following a review of Evotec's partnered pipeline assets, we are increasing our PT from €5.50 to €16.00, as we now include Evotec's growing pipeline into our PT. Fundamentally, Evotec's well-earned reputation for delivering industry-leading drug discovery services and its strategic focus initiated in 2010 to secure risk-adjusted, value-based partnership agreements with academics, companies and patient-centered groups is producing identifiable assets. We believe the Celgene neurodegenerative diseases partnership validates Evotec's induced pluripotent stem cell (iPSC) platform, and will attract additional partners.

### Global leaders in drug discovery are partnering with Evotec to tackle multiple blockbuster conditions:

While EVT Execute is the foundation of Evotec's drug discovery services, its EVT Innovate has been extremely successful in creating support from VCs and biopharmas to go after several blockbuster-potential indications with high unmet need (i.e., iPSC, Alzheimer's, chronic kidney disease, diabetes). Virtually every Evotec partnership seeks to develop novel approaches, including target ID and asset development. Examples of Evotec's partnerships and opportunities worth ~\$3.5 billion (+ ~10% royalties) include:

- Celgene (CELG-NC), to develop treatments for neurodegenerative diseases including ALS, Alzheimer's, Huntington's, and Parkinson's from its iPSC platform
- Sanofi (SASY.PA-NC), to develop functional  $\beta$  cells to cure diabetes from its iPSC platform
- Bayer (BAYGn.DE-NC), in separate partnerships to develop treatments for chronic kidney disease and endometriosis

We believe the Celgene partnership has the greatest attributable value, with the opportunity to collect milestones on 10 separate candidates, each valued at  $\leq$ €250 million. With overlapping research developing the 10 candidates, we believe there is a higher likelihood of reaching the royalty stage through the learning acquired from the broad approaches in this iPSC research collaboration. If the iPSC platform succeeds in any condition, we expect the NPV to be worth \$20-75B for the drug asset. But investors shouldn't lose sight of Evotec's fundamental role, which is the continued research effort into novel, blockbuster assets.

### We reiterate our Buy rating and increase our price target to €16.00.

We reach our PT based on our sum of the parts valuation, including our 2018-2020 EPS discount model, €4.26, our YE'17 cash/share estimate, €1.47, with ~two-thirds of our PT being driven by our risk-adjusted NPV for Evotec's identifiable partnered pipeline assets, €10.28.

## EVT Innovate Transforms Evotec Into an Operational VC

Evotec has invested in several companies' early funding rounds the last few years, including Topas Therapeutics (private) and Fibrocor Therapeutics (private) in 2016 and 2017, respectively. Unlike traditional VC's, Evotec's in-house, non-published expertise creates the insights to perform due diligence on potential investments as well as maximize the return on its human and financial investment via its degree of its interest in the program.

Following years of persistent focus on its drug discovery services, Evotec has earned a reputation from some of the world's leading scientists and organizations (Prof. Doug Melton, MIT; Bruce Booth, Atlas Ventures) as a cutting-edge partner for drug discovery. From its research into beta insulin cells, to its role in developing Padlock's technology to its neurodegenerative agreement with Celgene (CELG-NC), we believe Evotec has developed a strong reputation, but continues to hold earnings' power that is underappreciate by investors.

### Exhibit 1: EVT Innovate partners, spinoffs, and external investments

Program	Indication	Asset/Target	rNPV (\$M)	rNPV (€M)
<b>LAB282</b>				
Oxford, OSI, OUI	Multiple	Multiple	\$20	€ 17
<b>Neurology, Musculoskeletal</b>				
Celgene, IPSC Alliance	AD, ALS, PD, HD	Neuronal stem cells	\$1,393	€ 1,201
Facio Therapies	FSHD	DUX4 repressors	\$25	€ 22
<b>Oncology</b>				
Sanofi, Inserm Transfert	Oncology	RhoB modulators	\$5	€ 4
Carrick Therapeutics	Oncology	Multiple targets	\$5	€ 4
Exscientia	Oncology	Adenosine targets	\$5	€ 4
<b>Metabolic, Renal</b>				
CureNephron, w/ Bayer	CKD	Target ID	\$75	€ 65
TargetBCD, w/ Sanofi	Diabetes	Functional B cells	\$20	€ 17
Eternygen	NASH	NaCT, a.k.a. INDY	\$5	€ 4
TargetNASH, w/ Ellersbrook	NASH	Target ID	\$5	€ 4
<b>Autoimmune, Pain, Inflammation</b>				
Bayer	Endometriosis	Multiple	\$125	€ 108
Topas Therapeutics	Autoimmune	Liver-based tolerance induction	\$10	€ 9
Fibrocor Therapeutics	Fibrotic diseases	Target ID	\$5	€ 4
Panion, now Biogen	Chronic pain	Novel GPCR target	\$5	€ 4
<b>Infectious Diseases</b>				
Forge Therapeutics	Gram-negative	LpxC target	\$15	€ 13
Haplogen	Viral infections	PLA2G16	\$5	€ 4
<b>Total</b>			<b>\$1,723</b>	<b>€ 1,485</b>

AD = Alzheimer's disease; CKD = chronic kidney disease; FSHD = facioscapulohumeral dystrophy; GPCR = g-protein coupled receptor; HD = Huntington's disease; INDY = I'm not dead yet; NASH = nonalcoholic steatohepatitis; OSI = Oxford Sciences Innovation; OUI = Oxford University Innovation; PD = Parkinson's

Sources: www.evotec.com; ROTH Capital Partners' estimates

## EVT Innovate Partnerships

We see LAB282 as another exciting VC-like activity, with the opportunity to "cherry-pick" Oxford University's ongoing research, foster each project's development, and receive equity of potential spin-offs. These activities expand Evotec's scope into infectious diseases and

musculoskeletal diseases, while increasing investment in autoimmune diseases, oncology, and metabolic diseases.

In our view, Evotec's December 2016 partnership with Celgene, which is focused on developing induced pluripotent stem cell (iPSC) therapies for neurodegenerative disorders like Alzheimer's disease, has the greatest value among Evotec's ~70 partnered programs and external investments in spin-offs. In addition to the Celgene partnership, Evotec now has partnered programs with potential milestones exceeding \$200 million along with royalties on net sales with Bayer Pharma for endometriosis as well as chronic kidney disease, and Sanofi for diabetes. We believe these collaborations are validating Evotec's drug discovery platform, which should bring other major pharmaceutical companies its way. With expected adjustments, for now, we estimate the rNPV of the EVT Innovate partnership portfolio to be worth ~\$1.5 billion.

#### **Evotec's potential catalysts in 2H'17**

- Continued development to validate the outlook of the iPSC platform
- Additional Innovate partnerships with companies, universities or research groups
- Further spin-offs to develop identifiable assets and/or targets
- Continued commitment into partnered programs
- We believe we may see a few more EVT Innovate candidates reach the clinic in '17

### **Evotec's Research Collaborations**

#### **Neurodegenerative diseases collaboration with Celgene Corporation**

**rNPV = €1.06 billion (\$1.2 billion)**

- On December 15, 2016, Evotec and Celgene entered into a five-year strategic drug discovery and development collaboration to identify disease-modifying therapeutics for a broad range of neurodegenerative diseases including Amyotrophic lateral sclerosis, Alzheimer's disease, Parkinson's disease, and Huntington's disease.
- The collaboration will leverage Evotec's unique iPSC platform, developed over the last six years through work with the Harvard Stem Cell Institute in the CureMotorNeuron collaboration as well as Evotec's long-term collaboration with the CDHI Foundation. The agreement with the CDHI Foundation began in 2006, and as of 2015, included CDHI funding for 55 full-time Evotec scientists.
- Evotec received an upfront payment of \$45 million, and is eligible to receive up to \$250 million in milestones, as well as up to low double-digit royalties on in-licensed programs.
- Possibly overlooked by investors, is that Evotec is working on 10 projects with Celgene, all of which share the same aforementioned milestone cascade.
- The project is currently in the target ID stage, with undisclosed early milestones prior to clinical development.
- We believe that this program is a major driver of the stock due to the breadth of this collaboration with the multiple blockbuster-potential indications, and the 10 "shots on goal" from Evotec's iPSC platform. Additionally, this collaboration provides Evotec with further name-recognition, which should foster additional partnerships with major pharmaceutical companies.

**Endometriosis alliance with Bayer Pharma****rNPV = €107.8 million (\$125 million)**

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- In October 2015, Evotec extended a 4Q'12 collaboration agreement with Bayer (BAYGn.DE-NC), with the goal of developing four clinical candidates for the treatment of endometriosis.
- So far, the alliance has yielded six pre-clinical candidates, with two in the clinic in Phase 1. The first clinical candidate is a first-in-class antagonist of P2RX3, which is a ligand-gated ion channel believed to be involved in peripheral pain transduction.
- Evotec has received multiple milestones the last few years from this alliance, including €4 m for the first asset reaching the clinic, and an undisclosed milestone on July 24 for the second candidate reaching the clinic, which we speculate was ~€4 M. Evotec is eligible to receive up to ~€ 200 million in milestones per asset, plus royalties of ~10% of net sales.
- As we highlighted in our August 5, 2016 note, there are ~30 Evotec scientists and ~35 Bayer scientists working on this project.
- Endometriosis, caused by the abnormal extra-uterine growth of endometrial tissue, affects ~175 million women worldwide. Currently there is no cure for the condition.

**CureNephron with Bayer Pharma****rNPV = €65.7 million (\$75 million)**

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- On September 21, 2016, Evotec and Bayer Pharma entered into a five-year, multi-target research partnership, with the goal of developing multiple clinical candidates for the treatment of kidney diseases such as chronic kidney disease in diabetes patients.
- Evotec will receive a minimum of €14 million for research payments and an undisclosed license fee. Additionally, Evotec is eligible to receive milestones potentially over €300 m, as well as tiered royalties of up to low double-digit percentage of net sales.
- CureNephron began in 2012 as a joint initiative between Evotec, Harvard University, Brigham and Women's Hospital, and University of Southern California as part of Evotec's academic bridge model.

**LAB282 with Oxford University, OSI, OUI****rNPV = €17.5 million (\$20 million)**

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- LAB282 is a strategic partnership formed in 2016 by Evotec, the University of Oxford, Oxford University Innovation Ltd (OUI, the university's research commercialization company), and Oxford Sciences Innovation (OSI, an IP investment company). LAB282's goal is to accelerate the translation of basic biomedical research from Oxford into new therapeutics.
- LAB282 is supported by a fund of £13 million lead by OSI, and Evotec contributes its drug discovery capabilities to select and further develop projects, with the goal of achieving pre-clinical proof of concept for new drugs to generate new spin-out companies.
- On February 21, 2017, LAB282 selected its first two awarded projects— a project developing evasins from tick saliva as a potential treatment for giant cell myocarditis (GCM), and a project targeting the DarTG toxin-antitoxin system as a potential treatment for tuberculosis and other pathogens.
- On June 22, 2017, LAB282 selected five additional projects, to bring the total to seven. These projects aim to develop treatments for chemotherapy-induced nerve

damage, bacterial infections, heart failure, inflammatory bowel disease, and rheumatoid arthritis.

- We view LAB282 as the epitome of Evotec's leveraging its academic bridge to act as an operational venture capital firm, with the expertise to maximize the potential of its selected projects.

#### **TargetBCD diabetes alliance with Sanofi**

**rNPV = €17.5 million (\$20 million)**

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- In August 2015, Evotec and Sanofi (SNY-NC) entered into a collaboration to develop a beta cell replacement therapy for diabetes based on functional beta cells derived from human stem cells.
- Evotec received €3 million upfront, and will receive research payments, as well as potentially over €300 million in milestones and double digit royalties.
- On April 5, 2017, Evotec achieved pre-clinical proof-of-concept, triggering a €3 million milestone payment.

#### **Oncology research collaboration with Sanofi and Inserm Transfert**

**rNPV = €4.4 million (\$5 million)**

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- On September 22, 2016, Evotec entered into a research collaboration with Inserm Transfert, the private subsidiary of the French National Institute of Health and Medical Research. This is the first project under Evotec's and Sanofi's Academic Bridge, which was established in April 2015.
- This goal is to develop novel selective modulators of RhoB, an oncological target involved in cellular stress response, migration, tumor neovascularization and progression, as potential therapeutic options for many cancers with high unmet medical need.

#### **Immuno-oncology partnership with Exscientia Ltd.**

**rNPV = €4.4 million (\$5 million)**

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- On April 26, 2016, Evotec and Exscientia Ltd initiated a research collaboration to discover and develop first-in-class bispecific small molecule immuno-oncology therapies. The financial details are undisclosed for this co-owned, risk-shared partnership.
- This collaboration will focus on cancer-related adenosine targets, which are believed to play important roles in immuno-oncology through evasion of the host immune system and angiogenesis.
- In April 2017, a poster was presented on a potential candidate, a selective adenosine 2A receptor (A2AR) antagonist, as well as on a bispecific small molecule capable of simultaneously antagonizing A2AR and inhibiting CD73. Tumor cell expression of CD73 leads to the production of adenosine, which inhibits T lymphocytes' ability to infiltrate tumors by binding to A2AR.

#### **TargetNASH program with investment from Ellersbrook**

**rNPV = €4.4 million (\$5 million)**

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- On June 29, 2016, Evotec and the investment company Ellersbrook GmbH announced that they will co-invest over €5 million into Evotec's TargetNASH program to accelerate ongoing projects identifying novel mechanisms and targets for non-

alcoholic fatty liver disease (NAFLD), which causes non-alcoholic steatohepatitis (NASH). Currently, there are no approved medications for this condition, which affects up to 30% of the adult population.

- The goal is to advance TargetNASH projects towards either a spin-off company or a strategic Pharma partnership.

#### **Antiviral co-owned partnership with Haplogen**

**rNPV = €4.4 million (\$5 million)**

- In November 2012, Evotec and Haplogen GmbH, an Austrian biotech company, initiated a co-owned partnership to develop novel antiviral therapeutics.
- On January 12, 2017, research from the partnership was published in Nature, demonstrating how picoronaviruses use the enzyme PLA2G16 to evade the bacterial clearance pathway. PLA2G16 is a novel antiviral target.

#### **Joint venture with Biogen (Panion)**

**rNPV = €4.4 million (\$5 million)**

- In 2014, Evotec entered a research alliance with Panion Ltd, a subsidiary of Convergence Pharmaceutical Holdings Ltd, to develop novel chronic pain therapies targeting the G-protein coupled receptor (GPCR).
- In 2015, Biogen acquired Convergence and subsequently closed the pain unit. Despite this, Evotec and Biogen have continued the joint venture towards a GPCR pain therapy.

### **Evotec's Spinoffs and External Investments**

With its financial and human capital investments, Evotec is acting as an operational venture capital company, but with a unique advantage: Evotec is at its core, a drug discovery company. We believe Evotec has an advantage in its selection of collaborations because of its prior knowledge (including experience working with other, prior, outside parties) but also because it is able to capture higher equity shares relative to its financial outlays as its employees continue to develop collective knowledge and aid in the discovery and development process.

#### **Facio Therapies**

**rNPV = €21.9 million (\$25 million)**

- Facio Therapies is a private company based in Leiden, Netherlands focused on developing a cure for facioscapulohumeral dystrophy (FSHD), a musculoskeletal disease that affects ~700,000 people worldwide.
- On June 20, 2017, Evotec participated in Facio Therapies' 2017 funding round, which totaled €4.8 million. Proceeds will be used to advance Facio's small molecule DUX4 repressors towards pre-clinical lead candidate selection.
- While not disclosed, we assume Evotec has a 10-20% stake in the company.

**Forge Therapeutics****rNPV = €13.2 million (\$15 million)**

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- On December 9, 2016, Evotec and Forge Therapeutics initiated a strategic alliance to advance Forge's novel antibiotic program targeting LpxC with proprietary metal-binding pharmacophores in the treatment of gram-negative bacterial infections, including drug resistant species.
- On March 31, 2017, Forge received a research award from Combating Antibiotic Resistant Bacterial (CARB-X) of \$4.8 million upfront and potentially up to \$4 million in milestones. CARB-X is a public-private partnership focused on pre-clinical discovery and development of new antimicrobial products that was established by BARDA and NIAID of the U.S. Department of Health and Human Services and the Wellcome Trust, a global charitable foundation dedicated to improving health.
- While not disclosed, we assume Evotec has a 10-20% stake in the company.

**Topas Therapeutics****rNPV = €8.8 million (\$10 million)**

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- On March 22, 2016, Evotec announced the formation of Topas Therapeutics GmbH, a spin-off company developing nanoparticle-based treatments for autoimmune and inflammatory disorders through liver-based tolerance induction.
- Evotec participated in a €14 million Series A round, and is the largest shareholder with what we believe currently is a 30-40% stake in the company.

**Carrick Therapeutics****rNPV = €4.4 million (\$5 million)**

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- Carrick is developing a portfolio of first-in-class treatments that target multiple mechanisms of the most aggressive forms of cancer, which will be tailored to individual patients' tumors.
- On October 4, 2016, Evotec invested \$6 million to Dublin-based Carrick Therapeutics' \$95 million funding round.
- While not disclosed, we assume Evotec has a 10% stake in the company.

**Eternygen****rNPV = €4.4 million (\$5 million)**

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- Eternygen is a Berlin-based private metabolic diseases company focusing on the sodium coupled citrate transporter (NaCT), a.k.a. INDY ("I am Not Dead Yet").
- INDY is a regulator of energy metabolism that may be involved in the pathogenesis of nonalcoholic fatty liver disease (NAFLD), nonalcoholic steatohepatitis (NASH), diabetes and obesity.
- On January 9, 2017, Evotec participated in Eternygen's €8 million Series A funding round and will provide all pre-clinical drug discovery activities in collaboration with Eternygen.
- While not disclosed, we assume Evotec has a 15-20% stake in the company.

**Fibrocor Therapeutics**  
**rNPV = €4.4 million (\$5 million)**

- On January 17, 2017, Evotec and MaRS Innovation launched Fibrocor Therapeutics LP, a Toronto-based company focused on developing first-in-class therapies for fibrotic diseases.
- Evotec will provide all drug discovery activities and will receive an equity stake in the company.
- While not disclosed, we assume Evotec has a 10% stake in the company.

**Exhibit 2: Evotec EPS valuation matrix and Sums of Parts valuation**

2018		Discount rate							2018 2019 2020							
		0%	5%	10%	15%	20%	25%	30%	EPS:	€ 0.19	€ 0.23	€ 0.27				
									Years:	1	2	3				
Multiple	5	€ 0.94	€ 0.89	€ 0.85	€ 0.81	€ 0.78	€ 0.75	€ 0.72	<b>Estimate</b>	<b>€ 0.19</b>	<b>2018</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>Growth</b>	
	10	€ 1.87	€ 1.78	€ 1.70	€ 1.63	€ 1.56	€ 1.50	€ 1.44								<b>29%</b>
	15	€ 2.81	€ 2.67	€ 2.55	€ 2.44	€ 2.34	€ 2.24	€ 2.16								
	20	€ 3.74	€ 3.56	€ 3.40	€ 3.25	€ 3.12	€ 2.99	€ 2.88								
	25	€ 4.68	€ 4.45	€ 4.25	€ 4.07	€ 3.90	€ 3.74	€ 3.60								
	30	€ 5.61	€ 5.34	€ 5.10	€ 4.88	€ 4.68	€ 4.49	€ 4.32								
	35	€ 6.55	€ 6.23	€ 5.95	€ 5.69	€ 5.46	€ 5.24	€ 5.04								
	45	€ 8.42	€ 8.02	€ 7.65	€ 7.32	€ 7.01	€ 6.73	€ 6.47								
	0	€ 0.00	€ 0.00	€ 0.00	€ 0.00	€ 0.00	€ 0.00	€ 0.00								
	2019		Discount rate													
		0%	5%	10%	15%	20%	25%	30%	<b>Estimate</b>	<b>€ 0.23</b>	<b>2019</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>21%</b>	
Multiple	5	€ 1.13	€ 1.02	€ 0.93	€ 0.85	€ 0.78	€ 0.72	€ 0.67								<b>20%</b>
	10	€ 2.26	€ 2.05	€ 1.86	€ 1.71	€ 1.57	€ 1.44	€ 1.34								
	15	€ 3.38	€ 3.07	€ 2.80	€ 2.56	€ 2.35	€ 2.17	€ 2.00								
	20	€ 4.51	€ 4.09	€ 3.73	€ 3.41	€ 3.13	€ 2.89	€ 2.67								
	25	€ 5.64	€ 5.12	€ 4.66	€ 4.27	€ 3.92	€ 3.61	€ 3.34								
	30	€ 6.77	€ 6.14	€ 5.59	€ 5.12	€ 4.70	€ 4.33	€ 4.01								
	35	€ 7.90	€ 7.16	€ 6.53	€ 5.97	€ 5.48	€ 5.05	€ 4.67								
	40	€ 9.03	€ 8.19	€ 7.46	€ 6.82	€ 6.27	€ 5.78	€ 5.34								
	45	€ 10.15	€ 9.21	€ 8.39	€ 7.68	€ 7.05	€ 6.50	€ 6.01								
	2020		Discount rate							2020						
		0%	5%	10%	15%	20%	25%	30%	<b>Estimate</b>	<b>€ 0.27</b>	<b>2020</b>	<b>10%</b>	<b>15%</b>	<b>20%</b>	<b>20%</b>	
Multiple	5	€ 1.35	€ 1.17	€ 1.01	€ 0.89	€ 0.78	€ 0.69	€ 0.61								<b>23%</b>
	10	€ 2.70	€ 2.33	€ 2.03	€ 1.77	€ 1.56	€ 1.38	€ 1.23								
	15	€ 4.05	€ 3.50	€ 3.04	€ 2.66	€ 2.34	€ 2.07	€ 1.84								
	20	€ 5.40	€ 4.66	€ 4.06	€ 3.55	€ 3.12	€ 2.76	€ 2.46								
	25	€ 6.75	€ 5.83	€ 5.07	€ 4.44	€ 3.90	€ 3.45	€ 3.07								
	30	€ 8.10	€ 6.99	€ 6.08	€ 5.32	€ 4.69	€ 4.15	€ 3.69								
	35	€ 9.45	€ 8.16	€ 7.10	€ 6.21	€ 5.47	€ 4.84	€ 4.30								
	40	€ 10.80	€ 9.33	€ 8.11	€ 7.10	€ 6.25	€ 5.53	€ 4.91								
	45	€ 12.14	€ 10.49	€ 9.12	€ 7.99	€ 7.03	€ 6.22	€ 5.53								
										<b>Mean Price Target, 2018-2020</b>						
									<b>10% 15% 20%</b>							
									<b>20 25 30</b>							
									<b>€ 3.57 € 3.33 € 3.13</b>							
									<b>€ 4.46 € 4.26 € 3.91</b>							
									<b>€ 5.35 € 5.00 € 4.69</b>							
									<b>Earnings value/share € 4.26</b>							
									<b>Cash &amp; equivalents (€M, YE17) € 220.5</b>							
									<b>Debt (€M, YE17) € 8.3</b>							
									<b>Net cash position (€M, YE17) € 212.3</b>							
									<b>Diluted share count (M, YE17) 144.4</b>							
									<b>Net cash per share (€M, YE17) € 1.47</b>							
									<b>EPS + Cash (€M, YE17) € 5.73</b>							
									<b>Pipeline value (€M, YE17) € 1,485.3</b>							
									<b>Pipeline value/share € 10.28</b>							
									<b>2017s' Price target € 16.01</b>							

Source: ROTH Capital Partners' estimates



## VALUATION

### **We reiterate our Buy rating and increase our price target to €16.00.**

We reach our PT based on our EPS discount model, which includes our EPS projections in 2018 to 2020, discounted by 15% to account for the risk of the EVT Execute business which drives these EPS projections, to which we apply a 25X PE to account for the growth in EPS during those years. Our YE'17 cash/share estimate is €1.47. Approximately two-thirds of our PT is driven by our risk-adjusted NPV for Evotec's identifiable partnered pipeline assets, which is €10.28. The leading pipeline program is the neurodegenerative diseases partnership with Celgene. Factors that may impede shares of EVT.GR from achieving our price target include currency and trading risks, as well as execution risks that may be related to the integration of the Sanofi employees.

## RISKS

**Drug discovery and research risks:** While Evotec AG is an experienced drug discovery company there is no assurance that the company can and will be able to continue to provide research services that outside parties will agree to, and pay for. We cannot define the explicit value that investors are attributing to Evotec's more stable, research services business versus the potential of its pipeline. If the expected value of Evotec's future revenue and profitability potential falls, investors should expect the value of their holdings could decline.

**Currency and trading risks:** Geographically, 57% of Evotec's 2015 revenues were generated with customers in Europe and 42% in the US. Because Evotec offers its services to worldwide customers there are currency risks to all investors and as such, investors may experience detrimental currency changes which may cause the value of their holdings to decline.

**Partnering risks:** Because Evotec AG's operating model relies on the initiation and continuation of partnerships with outside parties in mixed and fluctuating degrees of research efforts, Evotec and its shareholders are reliant upon the continued "best efforts" of outside parties. These parties may change their previous intentions towards the development agreements with Evotec and/or may fail in the quality and timeliness of their own execution efforts that may be detrimental to Evotec shareholders.

## COMPANY DESCRIPTION

Evotec AG is a drug discovery and development company. The Company operates through two segments. The EVT Execute segment provides standalone drug discover services on a typical fee-for-service basis or integrated drug discovery collaborations on partners' target through a range of commercial structures, including research fees, milestones and/or royalties. The EVT Innovate segment develops drug discovery programs and assets, both internally or through academic collaborations. The Company seeks to partner these into collaborations in return for upfront payments, ongoing research payments. It consists of all partnerships derived from its internally developed assets and platforms and its participations in certain companies. It includes clinical initiations and progress of clinical pipeline within partnerships; expansion of academic BRIDGE network; research and development (R&D) progress with CureX/Target X initiatives, and focuses on induced pluripotent stem cells (iPSC) platform.

Fiscal Period:		Actual										Projected												
		2010	2011	2012	2013	2014	2015	Q116	Q216	Q316	Q416	2016	Q117	Q217	Q317	Q417	2017	Q118	Q218	Q318	Q418	2018	2019	2020
<b>Total Revenue</b>		55,262	80,128	87,265	85,938	89,496	127,677	37,479	37,975	45,173	43,880	164,507	50,184	42,532	50,594	49,146	192,455	55,604	47,125	56,058	54,453	213,241	233,968	256,709
Cost of revenue		(30,916)	(45,143)	(56,242)	(54,716)	(60,118)	(89,690)	(25,008)	(24,442)	(24,784)	(31,719)	(105,953)	(31,402)	(27,220)	(32,380)	(31,453)	(122,456)	(34,975)	(29,642)	(35,261)	(34,251)	(134,130)	(145,431)	(157,624)
<b>Gross Profit</b>		24,346	34,985	31,023	31,222	29,378	37,987	12,471	13,533	20,389	12,161	58,554	18,782	15,312	18,214	17,692	70,000	20,629	17,483	20,797	20,202	79,111	88,536	99,085
<b>Operating income and (expenses)</b>																								
Research & development		(6,116)	(8,437)	(8,340)	(9,664)	(12,404)	(18,343)	(4,386)	(4,647)	(3,765)	(5,310)	(18,108)	(4,651)	(4,981)	(5,130)	(5,284)	(20,045)	(6,116)	(5,184)	(6,166)	(5,990)	(23,456)	(25,736)	(28,238)
Selling, general & administrative		(15,956)	(15,760)	(16,301)	(16,597)	(17,990)	(25,166)	(5,367)	(6,390)	(6,006)	(9,250)	(27,013)	(7,314)	(6,805)	(8,095)	(7,863)	(30,077)	(8,507)	(7,210)	(8,577)	(8,331)	(32,626)	(35,117)	(37,760)
Other operating (expenses)		(559)	(5,581)	(9,584)	(26,312)	(5,365)	17,162	26	3,149	1,369	13,365	17,909	2,893	2,922	2,951	2,981	11,747	3,010	3,041	3,071	3,102	12,921	14,214	15,635
Amortization of intangible rights		(672)	(1,703)	(2,768)	(3,222)	(2,462)	(2,860)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Impairment of intangible assets		0	(2,058)	(3,505)	(22,023)	(14,967)	(7,242)	(1,417)	0	0	0	(1,417)	0	0	0	0	0	0	0	0	0	0	0	0
Income from bargain purchase		0	0	0	0	0	21,414	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other operating income		4,536	1,426	2,202	4,410	15,352	14,353	4,403	6,692	5,866	22,003	38,964	6,706	6,773	6,841	6,909	27,229	6,978	7,048	7,119	7,190	29,952	32,947	36,242
Other operating expenses		(4,423)	(4,747)	(5,513)	(1,980)	(9,732)	(8,503)	(2,960)	(3,543)	(4,497)	(4,649)	(15,649)	(3,813)	(3,851)	(3,890)	(3,929)	(15,462)	(3,968)	(4,008)	(4,048)	(4,088)	(17,031)	(18,734)	(20,607)
<b>Total operating expenses</b>		(22,631)	(29,778)	(34,225)	(52,573)	(35,759)	(26,347)	(9,727)	(7,888)	(8,402)	(1,195)	(27,212)	(9,072)	(8,864)	(10,274)	(10,166)	(38,376)	(11,613)	(9,353)	(11,672)	(11,220)	(43,161)	(46,640)	(50,363)
<b>Operating income</b>		1,715	5,207	(3,202)	(21,351)	(6,381)	11,640	2,744	5,645	11,987	10,966	31,342	9,710	6,448	7,940	7,526	31,624	9,015	8,130	9,125	8,982	35,950	41,896	48,722
<b>Other non-operating income (expenses)</b>																								
Interest income		241	413	655	261	469	533	227	270	118	248	863	253	256	258	261	1,027	263	266	269	271	1,069	1,090	1,112
Interest expense		(866)	(1,858)	(1,859)	(1,870)	(1,621)	(1,726)	(434)	(430)	(326)	(333)	(1,523)	(239)	(241)	(244)	(246)	(970)	(249)	(251)	(254)	(256)	(1,010)	(1,030)	(1,051)
Loss from equity investments		0	0	0	0	(10)	2,044	(2,128)	1,393	(90)	3,093	2,268	(801)	(402)	0	0	(1,203)	0	0	0	0	0	0	0
<b>Total non-operating income (expense)</b>		2,152	49	(1,812)	(2,297)	1,222	851	(2,335)	1,233	(470)	3,180	1,608	(787)	(388)	14	14	(2,349)	15	15	15	15	59	60	62
<b>Income before taxes</b>		3,867	5,256	(5,014)	(23,648)	(5,159)	12,491	409	6,878	11,517	14,146	32,950	8,923	6,060	7,954	7,540	29,274	9,030	8,145	9,140	8,997	36,009	41,957	48,784
Total tax gain (expenses)		(882)	1,395	7,492	(1,785)	(1,819)	4,025	(1,581)	(2,985)	(2,854)	1,309	(6,111)	(2,039)	(2,059)	(2,080)	(2,101)	(8,279)	(2,122)	(2,143)	(2,164)	(2,186)	(8,615)	(8,788)	(8,963)
<b>Net Income (loss)</b>		2,985	6,651	2,478	(25,433)	(6,978)	16,516	(1,172)	3,893	8,663	15,455	26,839	6,884	4,000	5,874	5,440	20,995	6,908	6,002	6,975	6,811	27,394	33,169	39,820
Average basic & diluted shares (000)		9,013	116,022	117,296	121,215	131,291	131,679	132,334	132,427	132,564	132,700	132,507	139,717	145,846	145,982	146,118	144,416	146,254	146,390	146,526	146,661	146,458	147,001	147,545
<b>Net Income (loss) per share (basic)</b>		€ 0.33	€ 0.06	€ 0.02	(€ 0.21)	(€ 0.05)	€ 0.13	(€ 0.01)	€ 0.03	€ 0.07	€ 0.12	€ 0.20	€ 0.05	€ 0.03	€ 0.04	€ 0.04	€ 0.15	€ 0.05	€ 0.04	€ 0.05	€ 0.05	€ 0.19	€ 0.23	€ 0.27
<b>Net Income (loss) per share (diluted)</b>		€ 0.33	€ 0.06	€ 0.02	(€ 0.21)	(€ 0.05)	€ 0.13	(€ 0.01)	€ 0.03	€ 0.07	€ 0.12	€ 0.20	€ 0.05	€ 0.03	€ 0.04	€ 0.04	€ 0.15	€ 0.05	€ 0.04	€ 0.05	€ 0.05	€ 0.19	€ 0.23	€ 0.27

Sources: Company financial reports and ROTH Capital Partners

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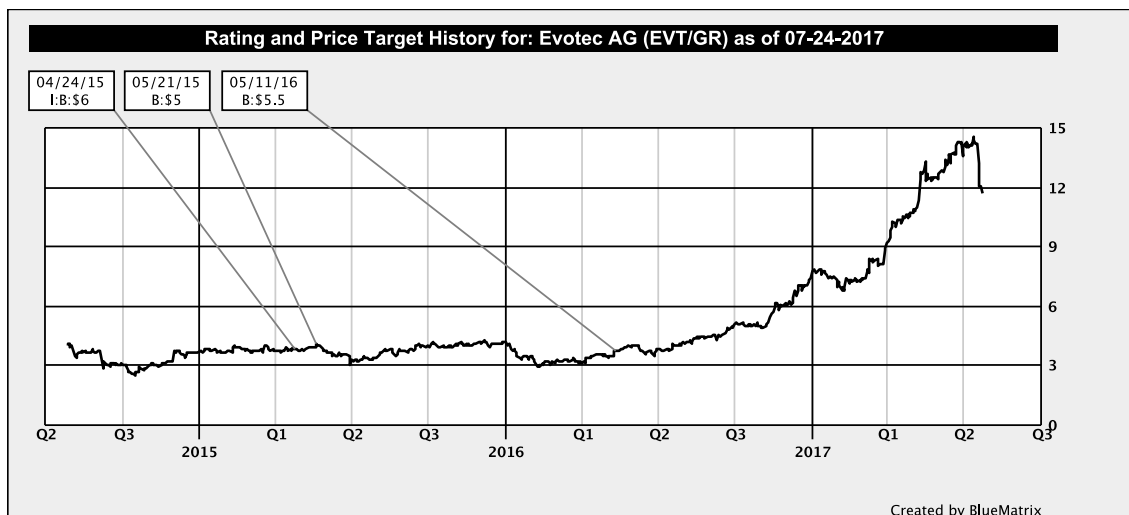
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Fiscal Period:		Actual						Projected							
		2011	2012	2013	2014	2015	2016	Q117	Q217	Q317	Q417	2017	2018	2019	2020
<b>Evotec AG</b>															
Balance Sheet, in € (000)															
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<b>ASSETS</b>															
<b>Current assets:</b>															
Cash and cash equivalents	17,777	39,065	45,644	48,710	44,497	83,940	77,616	81,616	87,491	92,930	92,930	120,324	153,493	193,314	
Investments	44,651	25,094	50,499	40,112	89,443	42,330	107,359	127,359	127,486	127,614	127,614	128,124	128,637	129,151	
Trade accounts receivables	10,393	15,053	17,777	25,259	20,933	27,448	30,411	30,563	30,716	30,869	30,869	31,487	32,117	32,759	
Receivables from associated companies	0	0	0	0	136	852	925	928	931	933	933	943	952	962	
Inventories	3,556	2,445	2,358	3,111	3,133	4,305	4,644	4,667	4,691	4,714	4,714	4,808	4,904	5,003	
Current tax receivables	201	480	433	887	1,121	1,528	598	601	604	607	607	619	632	644	
Other current financial assets	1,355	1,478	1,995	1,094	1,018	1,592	2,262	2,273	2,285	2,296	2,296	2,342	2,389	2,437	
Prepaid expenses and other current assets	2,965	4,489	3,820	6,127	6,659	7,240	9,359	9,406	9,453	9,500	9,500	9,690	9,884	10,082	
<b>Total current assets</b>	<b>83,333</b>	<b>88,104</b>	<b>122,526</b>	<b>125,300</b>	<b>166,940</b>	<b>169,235</b>	<b>233,174</b>	<b>257,414</b>	<b>263,656</b>	<b>269,464</b>	<b>269,464</b>	<b>298,338</b>	<b>333,008</b>	<b>374,350</b>	
<b>Non-current assets:</b>															
Investments accounted via equity method & other LTIs	10	10	10	13	0	3,885	6,495	7,145	7,859	8,645	8,645	11,238	14,610	18,993	
Property, plant and equipment	24,946	27,181	24,239	24,045	38,334	43,421	43,658	43,876	44,096	44,316	44,316	45,202	46,107	47,029	
Intangible assets, excluding goodwill	67,652	63,266	39,826	30,210	25,154	22,454	21,941	22,051	22,161	22,272	22,272	22,717	23,172	23,635	
Goodwill	42,202	42,342	40,136	44,815	45,648	93,227	93,446	93,913	94,383	94,855	94,855	96,752	98,687	100,661	
Deferred tax asset	0	2,815	0	0	8,812	10,592	11,073	11,128	11,184	11,240	11,240	11,465	11,694	11,928	
Non-current tax receivables	0	0	0	0	2,068	5,967	6,380	6,412	6,444	6,476	6,476	6,606	6,738	6,873	
Other non-current financial assets	70	75	77	78	80	83	83	83	84	84	84	86	88	89	
Other non-current assets	0	1,634	566	139	1,502	2,502	2,502	2,515	2,527	2,540	2,540	2,591	2,642	2,695	
<b>Total non-current assets</b>	<b>134,880</b>	<b>137,323</b>	<b>104,854</b>	<b>99,300</b>	<b>121,598</b>	<b>182,131</b>	<b>185,578</b>	<b>187,123</b>	<b>188,737</b>	<b>190,428</b>	<b>190,428</b>	<b>196,657</b>	<b>203,737</b>	<b>211,902</b>	
<b>Total assets</b>	<b>218,213</b>	<b>225,427</b>	<b>227,380</b>	<b>224,600</b>	<b>288,538</b>	<b>351,366</b>	<b>418,752</b>	<b>444,536</b>	<b>452,393</b>	<b>459,892</b>	<b>459,892</b>	<b>494,994</b>	<b>536,744</b>	<b>586,252</b>	
<b>LIABILITIES</b>															
<b>Current Liabilities</b>															
Current loan liabilities	13,174	13,223	17,222	13,363	14,213	21,413	1,299	1,305	1,312	1,319	1,319	1,345	1,372	1,399	
Trade accounts payable	10,134	6,363	6,653	9,450	12,171	11,997	10,587	10,640	10,693	10,747	10,747	10,962	11,181	11,404	
Advanced payments received	782	232	232	542	97	552	422	424	426	428	428	437	446	455	
Provisions	11,045	6,914	5,788	3,694	16,694	15,539	11,316	11,373	11,429	11,487	11,487	11,716	11,951	12,190	
Deferred revenues	5,875	5,548	6,051	2,806	8,763	15,355	14,265	14,336	14,408	14,480	14,480	14,770	15,065	15,366	
Current income tax payables	492	502	741	1,046	232	802	1,097	1,102	1,108	1,114	1,114	1,136	1,159	1,182	
Other current financial liabilities	1,147	234	342	1,384	633	1,503	78	78	79	79	79	81	82	84	
Other current liabilities	152	865	1,919	783	3,597	6,039	5,510	5,538	5,565	5,593	5,593	5,705	5,819	5,935	
<b>Total current liabilities</b>	<b>42,833</b>	<b>33,882</b>	<b>38,953</b>	<b>33,068</b>	<b>56,400</b>	<b>73,390</b>	<b>44,722</b>	<b>44,946</b>	<b>45,170</b>	<b>45,396</b>	<b>45,396</b>	<b>46,304</b>	<b>47,230</b>	<b>48,175</b>	
<b>Non-current liabilities</b>															
Non-current loan liabilities	2,359	4,178	0	8,186	8,730	7,194	6,871	6,905	6,940	6,975	6,975	7,114	7,256	7,401	
Deferred tax liabilities	9,904	2,099	1,245	1,583	1,538	115	115	116	116	117	117	119	121	124	
Provisions	14,618	18,817	18,586	17,957	27,342	14,801	14,573	14,646	14,719	14,793	14,793	15,089	15,390	15,698	
Deferred revenues	9	12,516	8,382	4,344	6,509	41,129	38,396	38,588	38,781	38,975	38,975	39,754	40,549	41,360	
Other non-current financial liabilities	1,244	1,388	1,233	1,079	925	771	733	737	740	744	744	759	774	790	
<b>Total non-current liabilities</b>	<b>28,135</b>	<b>38,998</b>	<b>29,460</b>	<b>33,149</b>	<b>45,044</b>	<b>64,040</b>	<b>60,696</b>	<b>60,999</b>	<b>61,304</b>	<b>61,611</b>	<b>61,611</b>	<b>62,843</b>	<b>64,100</b>	<b>65,382</b>	
<b>STOCKHOLDERS EQUITY</b>															
Share capital	118,316	118,547	131,460	131,711	132,584	133,052	146,569	146,740	146,912	147,083	147,083	148,381	149,690	151,010	
Additional paid-in capital	663,820	665,918	686,767	688,669	693,740	698,069	776,060	797,341	798,745	800,224	800,224	804,993	810,589	817,247	
Accumulated other comprehensive income	(25,995)	(25,501)	(27,410)	(23,169)	(18,510)	(25,152)	(24,495)	(24,617)	(24,741)	(24,864)	(24,864)	(25,362)	(25,869)	(26,386)	
Accumulated deficit	(608,895)	(606,417)	(631,850)	(638,828)	(622,312)	(595,473)	(585,873)	(581,873)	(575,998)	(570,559)	(570,559)	(543,165)	(509,996)	(470,175)	
<b>Equity attributable to shareholders</b>	<b>147,245</b>	<b>152,547</b>	<b>158,967</b>	<b>158,383</b>	<b>185,502</b>	<b>213,035</b>	<b>312,261</b>	<b>337,591</b>	<b>344,918</b>	<b>351,885</b>	<b>351,885</b>	<b>384,847</b>	<b>424,414</b>	<b>471,695</b>	
Non-controlling interest	0	0	0	0	1,592	901	1,073	1,000	1,000	1,000	1,000	1,000	1,000	1,000	
<b>Total Stockholders' equity</b>	<b>147,245</b>	<b>152,547</b>	<b>158,967</b>	<b>158,383</b>	<b>187,094</b>	<b>213,936</b>	<b>313,334</b>	<b>338,591</b>	<b>345,918</b>	<b>352,885</b>	<b>352,885</b>	<b>385,847</b>	<b>425,414</b>	<b>472,695</b>	
<b>Total liabilities and stockholders' equity</b>	<b>218,213</b>	<b>225,427</b>	<b>227,380</b>	<b>224,600</b>	<b>288,538</b>	<b>351,366</b>	<b>418,752</b>	<b>444,536</b>	<b>452,393</b>	<b>459,892</b>	<b>459,892</b>	<b>494,994</b>	<b>536,744</b>	<b>586,252</b>	

Sources: Company financial reports and ROTH Capital Partners

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## Disclosures:



Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

### Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 07/25/17	
			Count	Percent
Buy [B]	211	70.10	108	51.18
Neutral [N]	46	15.28	23	50.00
Sell [S]	6	1.99	3	50.00
Under Review [UR]	37	12.29	22	59.46

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

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**Buy:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return of at least 10% over the next 12 months.

**Neutral:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

**Sell:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

**Under Review [UR]:** A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

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