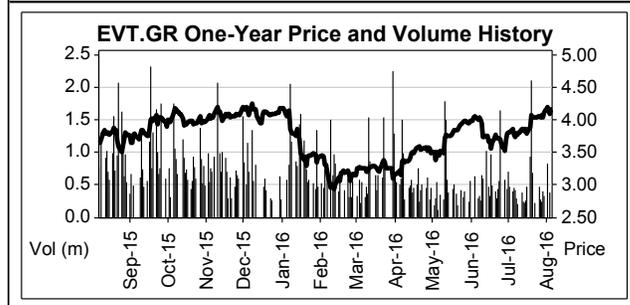


Focus Pick
Healthcare: Biotechnology
Evotec AG | EVT.GR - €4.17 - FSE | Buy
Company Update

Stock Data			
52-Week Low - High	€2.86 - €4.31		
Shares Out. (mil)	132.80		
Mkt. Cap.(mil)	€553.2		
3-Mo. Avg. Vol.	529,842		
12-Mo.Price Target	€5.50		
Cash (mil)	€122.5		
Tot. Debt (mil)	€22.6		
Est. 3Yr. EPS Growth	27%		
EPS €			
Yr Dec	—2015—	—2016E—	—2017E—
		Curr	Curr
1Q	(0.01)A	(0.01)A	-
2Q	0.11A	0.00E	-
3Q	(0.02)A	0.00E	-
4Q	0.04A	(0.01)E	-
YEAR	0.13A	(0.02)E	0.12E
P/E	0.0x	NM	0.0x
Revenue (€ millions)			
Yr Dec	—2015—	—2016E—	—2017E—
		Curr	Curr
1Q	21.5A	37.5A	-
2Q	33.4A	35.5E	-
3Q	33.2A	38.5E	-
4Q	39.5A	40.0E	-
YEAR	127.7A	151.5E	169.7E


EVT.GR: Partnered Pipeline Progresses; Endometriosis Candidate Into Ph1

Evotec reached a pivotal landmark in its progression from a drug discovery services business to one that includes a partnered pipeline of novel, internally generated assets. Following the 4Q'12 collaboration agreement with Bayer (BAYG.DE-NC), which produced four pre-clinical assets (see our Dec 11 '15 note), Bayer has selected a novel compound to enter Phase 1 as an endometriosis treatment. In this blockbuster indication, we believe Evotec is eligible to receive ~10% revenue royalties and ~\$200M in milestones.

Both parties contributed innovative drug targets and their own technology infrastructures as they shared the responsibility for early research and pre-clinical characterization of potential clinical candidates in the disease area of endometriosis. Should the first candidate to enter Phase 1 not meet expectations, there are three other pre-clinical candidates to consider for clinical trials.

These are not follow-on products, but novel agents stemming from each company's expertise. According to management, there are ~30 Evotec scientists and ~35 Bayer scientists working on this project, which in our view is more than most biotech companies with market caps similar to Evotec's, yet this program is only the fourth largest Evotec program, by collaboration revenue.

Endometriosis, a blockbuster opportunity. Endometriosis is a hormonal and inflammatory disease in which menstrual blood and small bits of tissue shed from the endometrium flow backwards via the fallopian tubes into the abdominal cavity where they begin growing. With an incidence rate of 10% of women of child-bearing age, this is a blockbuster indication with no adequate remedies today. Typically, the disease is identified after a number of years in pain, with up to ten years between the onset of discomfort and diagnosis. Roughly half of Bayer's endometriosis product portfolio is currently being worked on in collaboration with Evotec. Bayer is one of the two world leaders in endometriosis and in our view the right partner for Evotec to partner with in the development of a potential blockbuster. Should this candidate reach the market, we believe its value would be greater than Evotec's market cap today.

Translation of Evotec's drug discovery abilities is on display:

Not to be overlooked, is that Evotec has discovered a new drug-able target with a new mechanism of action and brought it into the clinic in less than four years, which in our view is years ahead of the average pace. Along with the compliments by LifeSciVC for Evotec's work with Padlock Therapeutics (see our March 23, '16 note), we believe developments like this in endometriosis is a visible endorsement of Evotec's core strategy to build first-in-class innovation alliances.

Intraday price \$ as of 10:545am ET

VALUATION

We reiterate our Buy rating and price target of €5.50. Our PT is derived from our 2018 to 2020 EPS estimates, discounted by 15% to account for Evotec's steady operations and apply a 25X PE multiple to account for the high rate of growth during these forecasted years. We include our YE17 net cash estimate of €0.86/share, plus €1.48/share for the rNPV of Evotec's pipeline. 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

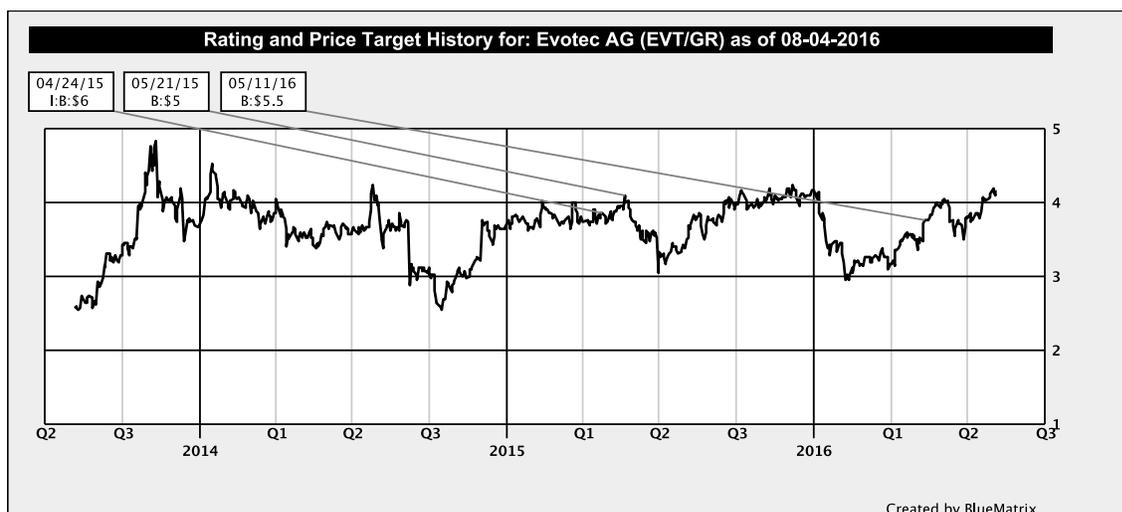
Evotec AG is a drug discovery company headquartered in Hamburg, Germany with operations and customers worldwide. The company is strategically focused on the discovery of novel drugs and drug targets. By design, Evotec is on the cutting edge of discovering the tools, targets and etiologies of undertreated diseases. As a result, Evotec's unique expertise in drug discovery produces scientific methods that are valued by pharmaceutical and biotechnology companies worldwide. Strategically, this 22-year-old company evolves with the biotechnology and drug discovery industries. While continuing to operate a profitable drug discovery services business, in the late 2000s the company began a strategic effort to retain an interest in the clinical assets that it had primarily discovered. These cores competencies are not mutually exclusive as Evotec executes similar services in its core "services business" called EVT Execute as it does in developing clinical assets that the company retains ownership of, called EVT Innovate. This overlap contributes to the high net margins (~30%) on its EVT Execute segment yet provides the company an increased opportunity to develop assets to be funded and developed by outside partners.

Regulation Analyst Certification ("Reg AC"): The research analyst primarily responsible for the content of this report certifies the following under Reg AC: I hereby certify that all views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Disclosures:

On September 28, 2010, ROTH changed its rating system in order to replace the Hold rating with Neutral.

On May 26, 2011, ROTH changed its rating system in order to incorporate coverage that is Under Review.



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 08/05/16	
			Count	Percent
Buy [B]	225	73.05	127	56.44
Neutral [N]	47	15.26	25	53.19
Sell [S]	5	1.62	2	40.00
Under Review [UR]	30	9.74	18	60.00

Ratings System Definitions - ROTH employs a rating system based on the following:

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.

Not Covered [NC]: ROTH does not publish research or have an opinion about this security.

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