



## **Evotec AG**

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

### **Proposed acquisition of Cyprotex, 26 October 2016 – 12.00 am CET**

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

#### **Operator**

Welcome to the conference call of Evotec. This conference will be recorded. After the presentation there will be an opportunity to ask questions. May I now hand you over to Mr. Lanthaler who will lead you through this conference.

#### **Werner Lanthaler**

Good morning, this is Werner speaking. Thank you for dialling in to this ad hoc conference call where we invite you to focus on one topic of today, which is the proposed acquisition of Cyprotex. We are very happy today that we can announce another big step forward in our strategic goal to achieve leadership in drug discovery. I am here together with my management team, together with Mario Polywka; I am here with Enno Spillner and Cord Dohrmann. We will guide you through the presentation which we have uploaded on the web and we hope that you can follow this presentation on the internet and otherwise we will post it on the web afterwards.

When you go to page 4, let me stress the strategic rationale of the proposed acquisition of Cyprotex. We always were very clear in our strategic ambition to lead the drug discovery business and with this accessing the world leader in pre-clinical ADME-Tox and DMPK testing which Cyprotex currently represents, we are making a big step forward. Cyprotex has around 136 employees currently in Europe and in the USA and Cyprotex has around € 10 m of revenues that were achieved in the first half of 2016. The underlying EBITDA of the company is around € 2.6 m and it is a company that is listed on AIM in the UK. What does this acquisition do to us? It is intended to be a strong addition to our drug discovery platform which is focused on drug discovery only. It is strengthening our segment EVT Execute in its stand-alone capabilities but also in making more integrated drug discovery alliances as we have built them with our customers throughout the world. When we offer a service we always try to be specific in what we try to do for our customers, we want to offer the highest quality. And Cyprotex is clearly the quality leader in this field and therefore it fits completely into our philosophy. Our offer is that we acquire the whole company. Therefore, we have made an offer to acquire the whole issued share capital and funding of the debt that is out there of Cyprotex for around € 62 m which we intend to pay in cash. We have made an offer which is 1.60 £ per share which represents 9.4% premium to the VWAP of the last 30 days of Cyprotex on AIM, and we have already secured more than 50% irrevocables of this transaction, which gives us a high security in getting this deal closed in 2016. We have fully committed to this transaction because we think that with this we are very clear on our strategy and will take a big step forward.

When you go to page 6 of the presentation you see that the areas where we drive innovation are focused in our disease areas which we have outlined many times to you within EVT Innovate, and we support all of this with one platform which is there for us and our customers, where we see drug discovery quality at its best in a full and comprehensive form in pre-clinical services. Coming here to critical mass was a strategic goal when we started this initiative in 2009 and we feel that with this critical step forward we can clearly claim to be the leader in drug discovery services and co-owning drugs, which is our strategy.



If you go to page 7 of the presentation you will see that the underlying megatrend is not stopping, it is just starting. We see the increasing comfort with outsourcing in the industry, we see the existence of virtual biotech companies that rely on infrastructures like Evotec and we see that higher R&D capital efficiency which Evotec provides to its customers is the ultimate rational to make faster and better drugs into the future. With this we are helping to create business models for our partners, which allow them to come to a very sophisticated pipeline strategy which implies higher capital efficiency than ever before. Accessing a service like ADME-Tox is for us critical in this value chain where we want to lead every step of the way in our niche up to PDC, the pre-clinical development candidate, which we consider as our current end product and sweet spot area in the value chain.

If you go to page 8 of the presentation you see this illustrated that for us it was always clear that we have defined a niche which is a large niche, if you think it through the whole industry, and within this niche we always want to provide the best services in one platform that we can use for EVT Execute and EVT Innovate for small molecule drug development projects. When you go to page number 9 of your presentation you should see that the constant idea of upgrading our platform has been in place since 2009. And what we mean by constant upgrading is providing our partners access to the latest stage technologies to drive science to its best possible points and to its fastest and most capital-efficient read-out points. So I think with adding Cyprotex as a next step on this way the platform becomes even more complete, more robust and even more quality-driven than ever before and that is why we think it is a fantastic step forward with the addition of Cyprotex to our portfolio that we can offer to our partners and within EVT Innovate.

When you look over the last five years you see that this trend has been small steps forwards, but they have always been small steps in the same direction. And that is critical for us that we make small steps and this time a little bigger step but it always goes into the same direction to lead the drug discovery industry. On that note let me hand over to my colleague Mario who will bring you into the rationale of what Cyprotex is doing and why this is perfect for our capabilities.

### **Mario Polywka**

Thank you Werner and good morning to everyone. I am very pleased to be part of this announcement on the offer to acquire Cyprotex. As Werner said, through this acquisition we have added true world leadership in the critical area of ADME/DMPK and as such have established a complete drug discovery platform that again, as Werner said, is able to serve both our innovation drive as well as the EVT Execute part of our business. Making early assessments on the suitability on a drug for development as early as possible is critical in the efficient development of small molecule drugs. Our strategy is also to continue to drive our top and bottom lines so that we are able to invest in our own first-in-class and best-in-class internal programmes as well as serving our external partners.

Cyprotex, as is shown on slide 11, is a true pioneer in the world of ADME-Tox profiling, developing one of the world's most efficient set of technologies for high-speed profiling both in an *in vitro* manner and also *in silico* manner and in a truly industrialised way. Now I am sure the audience we have this morning are well informed but let me just tell you what ADME-Tox stands for. So ADME is the acronym for absorption, distribution, metabolism and excretion and we all know what toxicology is. Now these are very distinct biological processes that determine the concentration of all molecules in the body in the blood and tissue and thus have a very determining and defining influence on the effectiveness and toxicity of a drug that we put into the body. Cyprotex is a true world leader in being able to assess these properties and help in the development and the early assessment of a drug's suitability for treating a disease. It has true critical mass, it is based in the Northwest of the UK in Macclesfield and Alderley Park, as well as more recently establishing operations in Watertown and Kalamazoo in the USA, thus growing its geographical reach and thus complimenting Evotec's driven strategy to increase our geographical reach, especially in the USA. With 136 employees it really has unparalleled expertise in the market of ADME-Tox.

Slide 12 just highlights these differentiators and what makes the team and the employees and the technologies of Cyprotex the best in class. A truly outstanding team of scientists and industrial



scientists, high-throughput screening technologies, novel science and assay development, the ability to extrapolate on the results and to be able to interpret data to help ourselves and ourselves and our clients make the correct decision in driving our drug discovery programmes forward. Of course we will look for synergies in the commerciality of what Cyprotex brings to Evotec's drug discovery platform.

Slide 13 gives you an illustration of their reach. First of all it is noteworthy that the technologies that Cyprotex' platform addresses reach out to all molecules which may interact with the human body. So you see that there is a broad span of customers and markets and cosmetics, chemicals, but significantly the main client is with the life science and pharmaceutical industry. We feel that with our strong and deep commercial reach our strategic relationships with our clients that we can drive this business even further in a strategic manner. As Werner said, and as I have said earlier, it is pivotal to have this assessment of drug molecules to drive a drug discovery programme. So it is absolutely critical in everything we do, both our internal EVT Innovate programmes, the programmes that we do with our clients and especially on a stand-alone basis. Werner gave you the slide which you showed the increasing and ongoing trend towards outsourcing. EVT Execute serves on a stand-alone basis the requirements of Pharma companies consolidate to do a lot of their work outside. The addition of Cyprotex' technologies and expertise are beautifully dovetailed with our capabilities in screening, protein production, profiling, synthetic chemistry as well as helping to bring these all together to deliver on integrated projects.

Slide 15 gives you some financial information on Cyprotex; the latest information is of course the first half results 2016 that were published to the market in the middle of 2016. We have looked at acquiring businesses that may give us this technology for a number of years and this slide actually shows you the tremendous growth and performance that Cyprotex has shown in the last few years and what has attracted us to them on a financial and business level. It demonstrates a business with a very mature platform, a strong growing revenue line and importantly, increasing profitability. The strong first-half 2016 results show that this trend should manifest itself in the full year 2016 and going forward within Evotec.

So to summarise: We have put in an offer to purchase through cash all issued and to be issued shares and the debt within Cyprotex at £ 55.36 m (approx. € 62.0 m). We are very pleased to have secured already more than 50% of the shares irrevocable and even more so that we were able to finance this acquisition off our own strong balance sheet. The proposed acquisition will be implemented through a scheme of arrangement on a course that is regulated by the City Code of Takeovers and Mergers. We expect the acquisition to close before the end of 2016 and to welcome this tremendous new platform and all the expert employees of Cyprotex into Evotec. On that note I would like to thank you for listening to our webcast here and I think we are happy to take questions from the floor.

### **Werner Lanthaler**

Thank you Mario, the floor is now open for questions and we'd like to thank you so much once again for supporting Evotec all the way along on our strategy to lead the drug discovery industry in any case.

### **Samir Devani (Rx Securities)**

Good morning everyone. Firstly congrats on what is clearly a very complimentary deal. I have a couple of questions. Firstly relating to potential synergies: I was just wondering if you could perhaps talk about potential cost savings that are open to you, I would appreciate obviously that technology is very complimentary but there are multiple sites here and I am wondering if there is any opportunity to consolidate anywhere? And then just in terms of Cyprotex' customer base: Could you just give us a flavour of the diversity of the revenue stream? How much of a proportion of the revenues come from the top ten clients, for example?



**Werner Lanthaler**

Thank you so much I will hand over the answer of both parts of your question to Mario.

**Mario Polywka**

Hi, so first of all, you will appreciate that this is an offer for a public company and as such we are slightly limited in what we can say openly. Synergy wise this isn't a deal to find cost synergies, first of all. The deal is very much to add and complement to our platform of drug discovery projects and technologies, it is a deal which accesses a high-throughput technology which we currently do not have and which we see an increasing trend in the industry. I think the synergies that we would look for are our ability to our commercial reach and the strategic relationships we have, especially with big Pharma to expand the level of large business and strategic business which Cyprotex can do. Cyprotex has stated publically that the main Macclesfield site which has around 100 people or so are moving or intend to move over the new few months to Alderley Park to a much better facility than they currently have. They already have some people working in Alderley Park. We are, as you know, acquired Euprotec from Manchester. We are in the process of relocating that operation to Alderley Park, so there is a synergy of bringing two operations together and maximising on that. So I think that is where we stand currently on the synergies. Of course, taking on a UK public company it will be delisted on the closing of the acquisition and we will find cost synergies on not having to cover a listed company. One of the positive things about Cyprotex: It has a very broad customer base, as I told you, which spans over a number of industries but primarily around 70% in the pharmaceutical industry. The largest I would say, and we are not necessarily part to all of the information here that the top ten customers probably account for 50% of the business.

**Samir Devani (Rx Securities)**

Can I just ask a few follow-ups? You mentioned in the slide deck that you needed 75% approval, and that you got over 50% irrevocables at the moment. Is there any break-clause payment in the offer?

**Werner Lanthaler**

No there is not.

**Samir Devani (Rx Securities)**

Ok, and then just finally on Cyprotex' debt. I understand they have some loan notes, could you maybe just talk us through how you expect to manage those?

**Enno Spillner**

Thank you. Obviously covering the net debt within this transaction within Cyprotex is one part of the deal, as you can also see in the press release where we are covering currently the 26.1 million issued and to be issued Cyprotex shares and the rest is obviously net debt that we will cover and then making it up to the full volume of £ 55.36 m estimated at this point in time.

**Jean-Paul Mannie (Kempen & Co)**

Thank you. One follow-up on the client base. It seems that with the amount of customers that Cyprotex has been serving that those contracts seem to be of slightly lower volume on average compared to Evotec. Could you share some thought on how you see that developing? And maybe



linked to that how would you describe the order book or any visibility on their contracts going forward, how that would help or impact EVT Execute? And linked to that maybe lastly – will you give any guidance on your 2016 guidance? Of course it will not impact 2016 as such but can you give any colour going forward how this acquisition could impact Evotec's business? Thanks.

**Mario Polywka**

Thank you, Jean-Paul. So again you must be aware that Cyprotex remains a publicly traded company and we cannot give you any details on the order book or anything that is not already out there in the public domain. I would say that if you look at their first-half 2016 results they show strong growth over the first half of 2015 of 26% and of course it is our anticipation that that continues and more. From the first half-year 2016 results, I think the revenues from the largest customer probably accounts for some 10% and represents a strong business for the major pharmaceutical company. As I said before, it is positive that they have a vast array of clients but we feel that within the hand of and the family of Evotec that we can drive larger strategic deals, especially as the market is increasingly showing that consolidation means ADME and DMPK testing as being outsourced to a much larger degree and that within a large organisation – and this has been one of the drivers – like Evotec, which is more secure, we can secure these larger strategic deals. The order book going forward, we cannot give you any indication of that apart from this that we brought this offer in the anticipation that this is strongly driving top- ine growth into 2017 and also bottom-line growth.

**Enno Spillner**

Yes, Jean-Paul, so as you correctly stated the deal will not close very much prior to the end of the year end and therefore it will not have any material impact on our 2016 results from an operational point of view, although we will have an impact on our balance sheet which we will see then. Having said that there will no change in our main guidance objectives as they are publicly shown for 2016 and also our liquidity guidance remains within range as it is excluding any potential cash outflow for M&A or similar transactions, and obviously our net cash result will be affected at the end of the year since this acquisition is supposed to be paid in cash, which is then quite obvious.

**Jean-Paul Mannie (Kempen & Co)**

Yes, thank you. Maybe one short follow-up on the 75%: You mentioned that there is no break clause. Do I interpret that correctly that if you reach north of 75% shares tendered that this transaction will close?

**Werner Lanthaler**

Yes. And maybe just to also be specific on the numbers – we are going into this offering from a cash position of north of € 120 m of liquidity, that is why we feel very comfortable in putting our cash to work because as you also have seen through our current trading year that we will have a very positive cash flow generating year in 2016 and also we expect this to be in 2017 the case.

**Jean-Paul Mannie (Kempen & Co)**

Yes, thank you for taking my questions.



**Heinz Müller (DZ Bank)**

Hello, good afternoon. I have a question regarding the fields of Cyprotex. Cyprotex is also involved in non-Pharma areas. Do you intend to strengthen these areas or will you reduce the engagement in these fields?

**Mario Polywka**

Thank you, Heinz. No, we have no intention of reducing their fields, the ability to serve other markets is still looking at the interaction of molecules and in our case small molecules or large molecules with the body, and so this testing an efficiency with which the technologies that Cyprotex have means that we can continue to serve these markets and will do so.

**Werner Lanthaler**

And it is fair to say it is the same platform, it is the same process and it is just different customer types asking for the answer of molecules if they show certain ADME-Tox profile, or don't show a certain ADME-Tox profile. So there is no strategic rationale to, for example, cut out cosmetics customers in our strategic reach when we are entering into Cyprotex. Actually it is a very nice synergy that we see here. And as you also know, many of the pharmaceutical companies when it comes to e.g. nutrition companies, are converging into also drug discovery companies, so that is why we see this as a very good strategic fit also into other areas at this stage.

**Mario Polywka**

We should remind ourselves that in our compound management capabilities which form a strong contributing business line to Evotec we store and manage compounds for the environmental and pollution agency, for many non-Pharma industries and we hope to be able to leverage our ability with compound storing and management and being able to test these libraries, too. So we reiterate that we continue to serve these markets but of course our key driver is further and deeper access into our pharmaceutical relationships.

**Heinz Müller (DZ Bank)**

Ok, thank you gentlemen.

**Igor Kim (ODDO SEYDLER)**

Yes, hello everyone, I have a couple of remaining questions on financials. When I look at your revenue growth it was quite impressive from 18 to 35% ranging within this range over the last three years, so the question is what we might expect in the mid-term. I appreciate that you cannot give guidance for Cyprotex, but at least in terms of probable market growth or whether Cyprotex is able to gain the market share from other companies? And the second question is: Obviously the company is in a very high-growth mode at the moment and could you give us an indication what is the amount of fixed costs at Cyprotex so that we have a feeling to what extent EBITDA margins can improve going forward? I think at the moment it is around 27% and last year's was 54% so it would be quite helpful. Thank you.



### **Mario Polywka**

Hello Igor, nice to speak to you. As we said, you can understand that we cannot give you specific guidance on Cyprotex. You have seen the impressive growth in top-line for Evotec over the last few years and you will know that it is our intention to continue that growth going forward. It is also our intention to be able minimally maintain the growth that Cyprotex has shown over the last few years, and as I said previously, through our increased commercial reach and the projects we are doing and our already existing customer list that we can help to grow that significantly. You see from the results of Cyprotex over the last few years how they have grown both top-line and significantly improved profitability and they have done this through some acquisitions as well as the maturation, the maturing of new product lines like ADME in the USA, gene toxicity and of course growing the general ADME capabilities in the UK. All the sites, both UK and the two US sites have the capacity to be able to do significantly more business without any true incremental increasing cost of sales, so I think if we could grow the revenue, the top-line of Cyprotex we will see an underlying growth in the profitability of the organisation. And I think that is probably all I can really say on that.

### **Werner Lanthaler**

And maybe one point also, to not forget our overall strategies. We grow top-line, we grow bottom-line, but don't forget that at the same time we invest into our EVT Innovate project to create long-term significant value out of the same platform. And that is always our objective to make a company which is very special in the industry, because we can use this platform not only for our partners but for ourselves, to generate new top-quality first-in-class innovation projects. And that is with this year approx. € 20 m investment coming to I would say value inflection point over the next years, where you will see many data points to come out of these proceeds and profitability that we generate in the service business.

### **Mick Cooper (Trinity Delta)**

Good morning everyone and congratulations on the deal. Just a few questions, firstly do you have key staff locked in on the back of this deal? Secondly, you talk about the leadership position of Cyprotex in drug discovery. Can you give us a feel for the market share that Cyprotex has in ADME-Tox? And finally, just to confirm with this year's guidance that the full-year guidance does include all the costs associated with this acquisition?

### **Werner Lanthaler**

On the third part of your question I can be very quick, don't expect any large transaction costs out of this because we, as usual, did this very lean and very efficient within Evotec and on the first two parts of your question – so change to guidance on the basis of that – I hand over to Mario.

### **Mario Polywka**

Hi, of course you know what I am going to say with your question about key staff Cyprotex and lock-instrument, they are a public company and this is an offer. I cannot answer what we have there apart from our interactions, all the employees of Cyprotex have been nothing but outstanding. The management and all the employees have driven this company, especially over the last three or four years, to really great heights and we look forward to working with all of them. Market share, of course very difficult to know the absolute market here, probably the addressable market for Cyprotex is in the hundreds of millions, changing all the time, as outsourcing increasing as an obvious significant amount which is captive within companies. I think the key thing is that we are not limited by the market in terms of what we can do, I think Cyprotex within Evotec has great opportunities their market share and I would think in our analysis of the companies in this area we really believe that



Cyprotex is a top cover to offer these technologies, the way they have developed the industrialisation of these technologies, the new assays and different business lines they have brought forward in the last few years. The growth in revenues and in customers is a testament to their high standing in the market.

**Werner Lanthaler**

One of the attractions of businesses like that, that you have a highly fragmented market out there, not organised so far in one industry, or one industry player because the fragmentation exists in the many, many Pharma many, many biotech and many outside of Pharma companies at this stage who do this partially on a stand-alone basis. Of course if you organise this within a leading player in the industry you can capture market share quite quickly, and that is why we think that the addressable market is in the hundreds of millions of euros here.

If there are no further questions, let me thank you so much and for supporting Evotec on our growth path and let me already today invite you to our conference call which we hold on our quarterly results on 10 November. Thank you so much.