

**Sam Fazeli, Ph.D., Sr Research Analyst**+44 (0)20 3142 8746, [sam.m.fazeli@pjc.com](mailto:sam.m.fazeli@pjc.com)  
Piper Jaffray Ltd.**Michael J. Aitkenhead, M.D., Research Analyst**+44 (0)203 142 8704,  
[michael.j.aitkenhead@pjc.com](mailto:michael.j.aitkenhead@pjc.com)  
Piper Jaffray Ltd.**Tracey Butcher, Research Analyst**+44 (0)203 142 8742, [tracey.j.butcher@pjc.com](mailto:tracey.j.butcher@pjc.com)  
Piper Jaffray Ltd.**Reason for Report:**

Company Update

Changes	Previous	Current
Rating	--	Neutral
Price Tgt	--	€1.31
FY09E Rev (€m)	42.5	
FY10E Rev (€m)	--	35.6
FY09E EPS (€)	--	(0.35)
FY10E EPS (€)	--	(0.17)

Price:	€2.02
52 Week High:	€2.45
52 Week Low:	€0.58
12-Month Price Target:	€1.31

*SOP-NPV Analysis*

Shares Out (mil):	108.8
Market Cap. (mil):	€219.8
Market Cap. (\$m):	\$299.1
Avg Daily Vol (000):	504
Cash Per Share:	€0.49
Fiscal Year End:	Dec

**Stock symbol/code:**

Bloomberg:	EVT GR
Thomson Financial:	EVT-FF
Reuters:	EVTG.DE

Rev (€m)	2008A	2009E	2010E
H1	14.5A	18.7A	17.8E
H2	<u>25.1A</u>	<u>23.8E</u>	<u>17.8E</u>
FY	39.6A	42.5E	35.6E

FY RM	5.6x	5.2x	6.2x
-------	------	------	------

EPS (€)	2008A	2009E	2010E
H1	(0.31)A	(0.28)A	(0.10)E
H2	<u>(0.55)A</u>	<u>(0.08)E</u>	<u>(0.07)E</u>
FY	(0.82)A	(0.35)E	(0.17)E

FY P/E	NM	NM	NM
--------	----	----	----

Net Cash (€m)	2008A	2009E	2010E
H1	101.0A	72.7E	52.5E
H2	<u>84.1A</u>	<u>63.1E</u>	<u>45.6E</u>
FY	84.1A	63.1E	45.6E

**Evotec  
Neutral****EVT GR - €2.0****Positive FDA feedback paves way for EVT101 Ph.II****CONCLUSION:**

Today's key news, in our view, is the positive FDA feedback on Evotec's planned Ph.II proof-of-concept study with EVT101. We view the agency's acceptance of safety and toxicology aspects of the programmes as critical, as the FDA had previously raised (undisclosed) concerns necessitating further preclinical work in 2008. The Ph.II proof-of-concept study is now on track to start in Q2-10. With EVT101 licensed to Roche in a \$300m deal, start of the Ph.II PoC trial is clearly a key event for Evotec. However, this does not impact our valuation as we already assume a Ph.II (24%) probability of success on the programme.

- **By way of background.** EVT101 and EVT103 are oral active, NR2B subtype selective NMDA receptor antagonists. In 2009, Evotec partnered to develop EVT101 for treatment-resistant depression (see note of 9 Mar '09). The deal, which also included EVT103, has a total potential deal value exceeding \$300m. Roche paid \$10m upfront for a buy-back option and is funding all development. If Roche exercises its option following positive EVT101 Ph.II data, Evotec will receive \$65m cash, potential milestones of up to \$225m milestones plus royalties.
- **Positive FDA feedback paves way for EVT101 Ph.II.** Today's key news, in our view, is the positive FDA feedback on Evotec's planned Ph.II proof-of-concept study with EVT101. Notably, the regulator is satisfied with the toxicology and safety aspects of the EVT101 programme - we view this as critical, as the FDA had previously raised (undisclosed) concerns necessitating further preclinical work in 2008. The Ph.II proof-of-concept study will start in Q2-10.
- **Follow-on compound EVT103 successfully completes Ph.I.** Evotec has also announced the successful completion of its first-in-man Ph.I study with follow-on compound EVT103. As a reminder, the trial was a double-blind, placebo-controlled, randomised, ascending-dose design in 72 healthy male volunteers. Primary study endpoints were safety, tolerability, and pharmacokinetics (PK) of oral single and multiple doses; food effect on PK was also investigated. Encouragingly, EVT103 was safe and well tolerated, with good bioavailability and minimal food effect on PK.
- **Our SOP-NPV derived PT is €1.31.** EVT101 contributes €0.58 for our NPV, based on a 2014 launch and peak sales of \$743m. Today's news does not impact our valuation as we already assume a Ph.IIa (24%) probability of success on the programme. However, EVT103 is currently excluded from our financial model, and could therefore provide upside to our forecasts and valuation. Our cautious stance and Neutral rating on Evotec's stock has been driven by the need to see sustained deal flow and revenue growth in the Alliances Business.

**INVESTMENT RECOMMENDATION:**

We have a Neutral rating and NPV-derived PT of €1.31.

**RISKS TO ACHIEVEMENT OF TARGET PRICE:**

Failure to partner programmes; failure of EVT101, failure of P2X7.

**COMPANY DESCRIPTION:**

Evotec is a biopharmaceutical company focused on CNS disorders, pain and cancer

*Piper Jaffray does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decisions. This report should be read in conjunction with important disclosure information, including an attestation under Regulation Analyst certification, found on pages 4 - 6 of this report or at the following site: <http://www.piperjaffray.com/researchdisclosures>.*

*This research report has been prepared in whole or part by non-US research analysts who may be associated persons of Piper Jaffray & Co. These research analysts are not registered/qualified as research analysts with FINRA, but instead have satisfied the registration/qualification requirements or other research-related standards of a non-US jurisdiction that have been recognized for these purposes by FINRA.*

## Company Description

Evotec discovers and develops small molecule therapies for Central Nervous System (CNS) disorders, pain and inflammation. The new CEO has implemented a major restructuring programme to refocus the pipeline, reduce cash burn and grow the alliances business. Lead compound EVT101, for treatment-resistant depression, is partnered with Roche in a \$300m deal and a Phase II proof-of-concept trial is now expected to start in early 2010. The second clinical programme EV401, a novel P2X7 antagonist, has successfully completed Phase I trials and could enter a Phase II study in rheumatoid arthritis in late 2010.

## Investment Thesis

We remain encouraged by Evotec's continued efforts to rein in costs and rationalise its R&D portfolio. The restructuring addressed our key concerns about the company's high cash burn and unfocused development strategy. Furthermore, we view the closure of the US operations and EVT101 licensing deal with Roche as evidence of management's ability to execute a rapid turnaround. However, we maintain our Neutral rating until we see sustained evidence that Evotec can monetise its early-stage programmes and grow the discovery alliances business.

## Potential catalysts

Catalyst	Impact	Risk	Timing
EVT101 - start of Phase II PoC in treatment-resistant depression	If started in Q1-10, headline data could be delivered mid-11	In our view, there is a low risk to the initiation of this clinical trial.	Q1-10
EVT103 - results of Phase I trial	This programme represents upside to our current valuation.	Negative data	Q1-10
EVT401 - potential start of Phase II development	This programme represents upside to our current valuation.	The main risk is timing of the initiation	2010?
New drug discovery alliances	This could offer upside to our forecasts and valuation	Partnership deals involve numerous third parties and the time lines are often outside of the hands of the biotech.	2010?
New strategic partnerships/licensing deals	This could offer upside to our forecasts and valuation	Partnership deals involve numerous third parties and the time lines are often outside of the hands of the biotech.	2010?

Source: Piper Jaffray

## SOP-NPV valuation

Drug	Indication	Stage	Launch	Peak Sales (\$m)	Probability	rNPV (Em)	rNPV/share (E/share)
EVT101	Treatment-refractory depression	Phase II	2014	743	24%	63.6	0.58
Services						67.4	0.62
Other costs						-45.2	-0.42
Tax						-6.3	-0.06
Cash						63.1	0.58
<b>Total NPV</b>						<b>142.3</b>	<b>1.31</b>

Source: Piper Jaffray

**Evotec**  
**Historical Earnings and Projections**

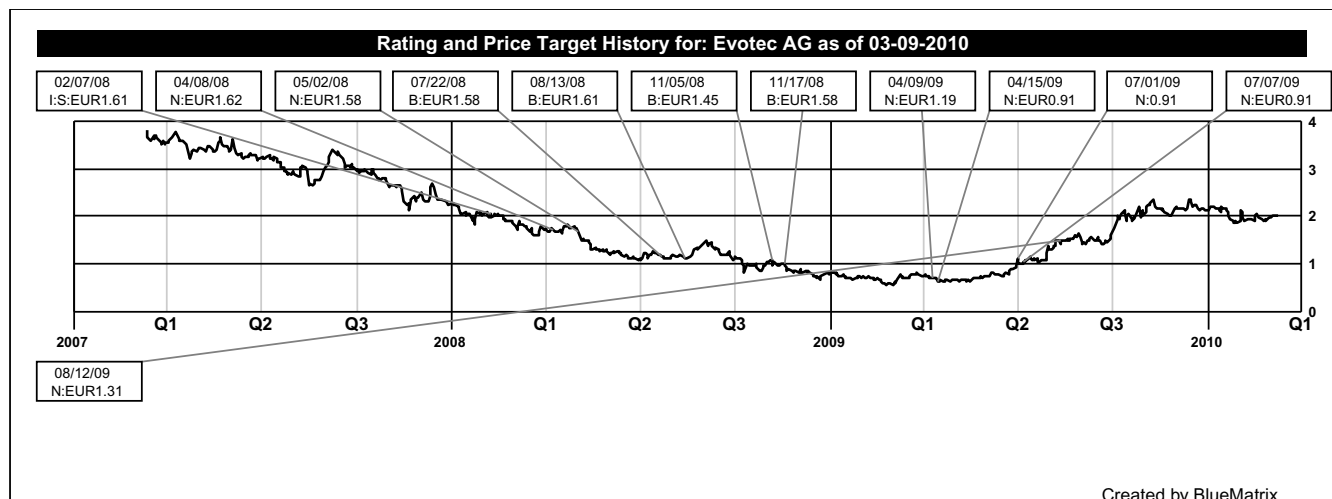
Profit and Loss													
Year end Dec. 31st (€m)	2006	H1-07A	H2-07A	2007A	H1-08	H2-08	2008	H1-09	H2-09E	2009E	H1-10E	H2-10E	2010E
Discovery Alliances business	84.7	28.5	25.9	54.4	14.5	25.1	39.6	17.6	22.0	39.6	16.0	16.0	32.0
EVT101 (Treatment-resistant depression)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1	1.8	2.9	1.8	1.8	3.6
<b>Total revenue</b>	<b>84.7</b>	<b>28.5</b>	<b>25.9</b>	<b>54.4</b>	<b>14.5</b>	<b>25.1</b>	<b>39.6</b>	<b>18.7</b>	<b>23.8</b>	<b>42.5</b>	<b>17.8</b>	<b>17.8</b>	<b>35.6</b>
COGS	54.1	22.1	18.8	40.9	10.9	11.1	22.0	11.7	13.1	25.9	12.8	12.8	25.6
Gross Profit	30.6	6.4	7.1	13.5	3.7	14.0	17.6	7.1	10.7	16.7	5.0	5.0	10.0
R&D	33.4	16.4	20.5	36.9	21.9	20.6	42.5	16.3	11.0	27.3	7.3	4.0	11.3
SG&A	29.0	9.9	13.6	23.5	8.5	12.0	20.5	9.2	8.3	17.4	9.2	9.1	18.3
Impairment of goodwill	6.6	0.0	5.8	5.8	0.0	20.3	20.3	6.6	0.0	0.0	0.0	0.0	0.0
Impairment of tangible assets	-0.6	0.0	2.7	2.7	0.0	7.3	7.3	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income/expense	1.6	0.9	1.2	2.1	1.1	1.3	2.4	-0.1	0.0	0.0	0.0	0.0	0.0
Restructuring expenses	0.6	0.0	0.4	0.4	0.1	0.0	0.1	4.1	0.0	4.1	0.0	0.0	0.0
<b>Operating expenses</b>	<b>52.0</b>	<b>27.2</b>	<b>44.2</b>	<b>71.4</b>	<b>31.6</b>	<b>61.5</b>	<b>93.1</b>	<b>36.2</b>	<b>19.3</b>	<b>55.4</b>	<b>16.5</b>	<b>13.1</b>	<b>29.6</b>
Other income	0.0	0.9	1.3	2.2	1.1	1.2	2.3	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating income (loss)</b>	<b>-21.4</b>	<b>-19.9</b>	<b>-35.8</b>	<b>-55.8</b>	<b>-26.9</b>	<b>-46.3</b>	<b>-73.2</b>	<b>-29.1</b>	<b>-8.6</b>	<b>-38.8</b>	<b>-11.5</b>	<b>-8.1</b>	<b>-19.6</b>
Net finance income (expense)	0.7	0.8	0.8	1.6	1.1	1.1	2.1	0.1	0.3	0.7	0.3	0.2	0.5
Other non-operating income/expense	6.7	11.7	27.1	38.8	0.8	-5.7	-4.9	-1.4	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax profit (loss)</b>	<b>-14.0</b>	<b>-7.5</b>	<b>-7.9</b>	<b>-15.4</b>	<b>-25.0</b>	<b>-51.0</b>	<b>-76.0</b>	<b>-30.4</b>	<b>-8.2</b>	<b>-38.1</b>	<b>-11.2</b>	<b>-7.9</b>	<b>-19.1</b>
Income tax expense	-0.8	0.0	0.4	0.4	0.3	1.6	1.9	0.2	0.0	0.2	0.0	0.0	0.0
Deferred tax benefit (expense)	0.0	0.0	4.6	4.6	-0.5	0.1	-0.4	0.2	0.0	0.0	0.0	0.0	0.0
<b>Net profit (loss)</b>	<b>-14.8</b>	<b>-7.5</b>	<b>-3.7</b>	<b>-11.2</b>	<b>-25.9</b>	<b>-52.4</b>	<b>-78.3</b>	<b>-30.4</b>	<b>-8.2</b>	<b>-38.2</b>	<b>-11.2</b>	<b>-7.9</b>	<b>-19.1</b>
No. of shares	66.4	69.8	73.9	71.8	83.7	95.2	95.2	108.8	108.8	108.8	109.8	109.8	109.8
<b>Basic earnings (loss) per share</b>	<b>-22.4</b>	<b>-10.8</b>	<b>-5.0</b>	<b>-15.5</b>	<b>-30.9</b>	<b>-55.1</b>	<b>-82.2</b>	<b>-27.9</b>	<b>-7.6</b>	<b>-35.1</b>	<b>-10.2</b>	<b>-7.2</b>	<b>-17.4</b>
<b>Cash</b>	<b>78.7</b>	<b>72.4</b>	<b>93.7</b>	<b>93.7</b>	<b>101.0</b>	<b>84.1</b>	<b>84.1</b>	<b>72.7</b>	<b>63.1</b>	<b>63.1</b>	<b>52.5</b>	<b>45.6</b>	<b>45.6</b>

Source: Evotec actuals, Piper Jaffray estimates

<b>Piper Jaffray Ltd</b>	<b>Sam Fazeli, Senior Research Analyst</b> +44 (0) 20 3142 8746 <a href="mailto:sam.m.fazeli@pjc.com">sam.m.fazeli@pjc.com</a>	<b>Mike Aitkenhead, Research Analyst</b> +44 (0) 20 3142 8704 <a href="mailto:michael.j.aitkenhead@pjc.com">michael.j.aitkenhead@pjc.com</a>	<b>Tracey Butcher, Research Analyst</b> +44 (0) 20 3142 8742 <a href="mailto:tracey.j.butcher@pjc.com">tracey.j.butcher@pjc.com</a>
--------------------------	--	--	---

For up-to-date disclosure info on this company, please visit <http://www.piperjaffray.com/researchdisclosures>

## Important Research Disclosures



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box 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.

Legend:

I: Initiating Coverage

R: Resuming Coverage

T: Transferring Coverage

D: Discontinuing Coverage

S: Suspending Coverage

OW: Overweight

N: Neutral

UW: Underweight

B: Buy (Piper Jaffray discontinued use of the B, N, and S ratings on June 30, 2009)

N: Neutral

S: Sell

OP: Outperform (Piper Jaffray discontinued use of the OP, MP and UP ratings on November 15, 2007)

MP: Market Perform

UP: Underperform

AL On/AL Off: Placed on/removed from the Alpha List maintained by Piper Jaffray

NA: Not Available

UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	324	47.40	66	20.37
HOLD [N]	273	40.00	16	5.86
SELL [UW]	86	12.60	1	1.16

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

## Important Research Disclosures

### Analyst Certification — Sam Fazeli, Ph.D., Sr Research Analyst

The views expressed in this report accurately reflect my personal views about the subject company and the subject security. In addition, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

### Research Disclosures

Piper Jaffray usually provides bids and offers for the securities of Evotec AG and will, from time to time, buy and sell Evotec AG securities on a principal basis.

**Affiliate Disclosures:** This report has been prepared by Piper Jaffray & Co. and/or its affiliates Piper Jaffray Ltd. and Piper Jaffray Asia Securities Limited, all of which are subsidiaries of Piper Jaffray Companies (collectively Piper Jaffray). Piper Jaffray & Co. is regulated by FINRA, NYSE, and the United States Securities and Exchange Commission, and its headquarters is located at 800 Nicollet Mall, Minneapolis, MN 55402. Piper Jaffray Ltd. is registered in England, no. 3846990, and its registered office is One South Place, London, EC2M 2RB. Piper Jaffray Ltd. is authorised and regulated by the UK Financial Services Authority ("FSA"), entered on the FSA's register, no. 191657 and is a member of the London Stock Exchange. Piper Jaffray Asia Securities Limited is a licensed corporation regulated by the Securities and Futures Commission of Hong Kong ("SFC"), entered on the SFC's register, no. ABO154, and is an exchange participant of The Stock Exchange of Hong Kong Limited. Its headquarters is located at 39/F Tower 1 Lippo Centre, 89 Queensway, Hong Kong. Disclosures in this section and in the Other Important Information section referencing Piper Jaffray include all affiliated entities unless otherwise specified.

Piper Jaffray research analysts receive compensation that is based, in part, on overall firm revenues, which include investment banking revenues.

### Rating Definitions

**Stock Ratings:** Piper Jaffray ratings are indicators of expected total return (price appreciation plus dividend) within the next 12 months. At times analysts may specify a different investment horizon or may include additional investment time horizons for specific stocks. Stock performance is measured relative to the group of stocks covered by each analyst. Lists of the stocks covered by each are available at [www.piperjaffray.com/researchdisclosures](http://www.piperjaffray.com/researchdisclosures). Stock ratings and/or stock coverage may be suspended from time to time in the event that there is no active analyst opinion or analyst coverage, but the opinion or coverage is expected to resume. Research reports and ratings should not be relied upon as individual investment advice. As always, an investor's decision to buy or sell a security must depend on individual circumstances, including existing holdings, time horizons and risk tolerance.

- **Overweight (OW):** Anticipated to outperform relative to the median of the group of stocks covered by the analyst.
- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

An industry outlook represents the analyst's view of the industry represented by the stocks in the analyst's coverage group. A Favorable industry outlook generally means that the analyst expects the fundamentals and/or valuations of the industry to improve over the investment time horizon. A Neutral industry outlook generally means that the analyst does not expect the fundamentals and/or valuations of the industry to either improve or deteriorate meaningfully from its current state. An Unfavorable industry outlook generally means that the analyst expects the fundamentals and/or valuations of the industry to deteriorate meaningfully over the investment time horizon.

The Alpha List consists of Overweight-rated stocks that have been selected by analysts from among their best ideas within their universe of covered stocks, with an eye toward above-average returns over the next three to six months.

## Other Important Information

The material regarding the subject company is based on data obtained from sources we deem to be reliable; it is not guaranteed as to accuracy and does not purport to be complete. This report is solely for informational purposes and is not intended to be used as the primary basis of investment decisions. Piper Jaffray has not assessed the suitability of the subject company for any person. Because of individual client requirements, it is not, and it should not be construed as, advice designed to meet the particular investment needs of any investor. This report is not an offer or the solicitation of an offer to sell or buy any security. Unless otherwise noted, the price of a security mentioned in this report is the market closing price as of the end of the prior business day. Piper Jaffray does not maintain a predetermined schedule for publication of research and will not necessarily update this report. Piper Jaffray policy generally prohibits research analysts from sending draft research reports to subject companies; however, it should be presumed that the analyst(s) who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication, and has had assistance from the company in conducting diligence, including visits to company sites and meetings with company management and other representatives.

This report is published in accordance with a conflicts management policy, which is available at <http://www.piperjaffray.com/researchdisclosures>.

**Notice to customers:** This material is not directed to, or intended for distribution to or use by, any person or entity if Piper Jaffray is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to such person or entity. Customers in any of the jurisdictions where Piper Jaffray and its affiliates do business who wish to effect a transaction in the securities discussed in this report should contact their local Piper Jaffray representative. **Europe:** This material is for the use of intended recipients only and only for distribution to professional and institutional investors, i.e. persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom, or persons who have been categorised by Piper Jaffray Ltd. as professional clients under the rules of the Financial Services Authority. **Asia:** This report is distributed in Hong Kong by Piper Jaffray Asia Securities Limited, which is regulated by the Hong Kong SFC. This report is intended only for distribution to professional investors as defined in the Hong Kong Securities and Futures Ordinance and is for the use of intended recipients only. **United States:** This report is distributed in the United States by Piper Jaffray & Co., member SIPC, FINRA and NYSE, Inc., which accepts responsibility for its contents. The securities described in this report may not have been registered under the U.S. Securities Act of 1933 and, in such case, may not be offered or sold in the United States or to U.S. persons unless they have been so registered, or an exemption from the registration requirements is available.

This report is produced for the use of Piper Jaffray customers and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Piper Jaffray & Co. Additional information is available upon request.

Copyright 2010 Piper Jaffray. All rights reserved.