



Investing in
People and Medicine
that Make a Difference

Company Showcase:

Evotec

Evotec is a German biotech company that performs advanced medicine discovery and pre-clinical studies for third parties. The company was founded in 1993 in Hamburg, Germany, and over the last years it has gone through outstanding growth. It exploits long lasting partnerships with big pharma companies, as well as smaller biotech firms and foundations such as the Michael J. Fox foundation. Since more and more biotech and pharma companies outsource their early stage R&D and Evotec has its advanced research capacity almost fully covered at the beginning of each year, Evotec can demand more than just a fixed or hourly fee. Today the company has milestone and royalty-bearing agreements in place around 100 potential medicines. The high volume of these royalty bearing deals the company has been able to sign is truly impressive, and is reflected in the current market valuation: the company is valued at € 3,3 billion, while it made € 364M in revenues and € 92M in EBITDA over 2018.

Evotec Business Unites

Evotec's fully integrated R&D platform is divided in two sections: EVT Execute, where the IP around a medicine belongs to a client partner; and EVT Innovate, for projects based on IP that belongs to Evotec or that comes from academic collaborations (*figure 1*).



Figure 1. Evotec's business units.

For projects that belong to the EVT Execute section, Evotec provides a broad range of scientific services that cover all of the steps of the discovery and preclinical development of a medicine. In exchange Evotec will receive a fee-for-service or different combinations of upfront payments, research fees, development milestones and royalties on future sales. Cost efficiency and faster progression for medicine candidates are the added values that make a collaboration with Evotec so appealing, to smaller biotech companies but also to Top 20 global pharma clients such as Roche, Novartis, Novo Nordisk, Takeda, Sanofi and others.

Programs that belong to EVT Innovate are developed internally or in collaborations with leading academic laboratories or biotech companies. Such programs are usually based on a specific biologic mechanism or a specific single disease target. Evotec's proposition is to make each of these programs pursue medicine candidates with impactful disease-modifying properties, i.e. medicines that target key biology mechanisms and/or the underlying cause(s) of the disease that will slow down, halt, or even reverse its progression. These programs are designed to be ideal for forging new strategic pharma alliances or spin-out companies, that are likely to yield important revenues for Evotec in the form of upfront payments, milestones, royalties and equity.

Sustainable Business Model?

With more than 2,500 highly skilled employees and 14 R&D sites between Europe and the U.S, the fixed costs for the company can be challenging to cover.

The company's maximum capacity for collaborations worldwide has been reported to be almost fully booked for all of 2019, with the business development already working on deals to fill in openings for the coming years. Another key trait that has been reported is that more than 80% of the current collaborations are "repeat business". Lastly, after years of investments and plowback, the company has shown a remarkable growth in both revenues and EBITDA since 2015. However, the development of a medicine can easily take more than 12 years and the first research deal including royalties was only signed in 2006. It can therefore take many more years before royalties from product sales can be harvested. Nevertheless, once the larger later stage milestone payments followed by royalties kick-in, EBITDA figures can really start to grow aggressively.

The services Evotec provides attract companies of different size because they add something that is valuable regardless of the size of a company: faster and more efficient development (and therefore lower R&D costs). Even for those companies that already have an established pre-clinical development business, staying up to date with modern technologies and latest trends of research requires constant reinvestment and reallocation of resources.

Evotec can benefit from its economics of scale greatly: it can put its equipment, biologic components, knowledge and people at work across multiple clients and is starting to benefit from applying artificial intelligence to the large amount of data it generates.

Technology Focus: iPSCs

Among all the techniques and technologies Evotec uses in its laboratories, we want to highlight one that is getting more and more attention in the scientific community: induced pluripotent stem cell (iPSC) technology. Pluripotent stem cells are cells that can transform into all types of cells, including those that have been lost and that normally are not renewable. This potential is the reason for which this technology has attracted many research efforts throughout the years. The best known type of pluripotent stem cells is the embryonic stem cell. Despite it having all the characteristics needed for medicine discovery, using these cells for

research has been ethically highly controversial since they can only be harvested from embryos.

In 2006 in a laboratory in Kyoto, Japan a scientist pioneered the induced pluripotent stem cell technology, a study for which he was awarded the Nobel prize in medicine in 2012. By introducing certain genes, scientists proved that they could convert adult cells into pluripotent stem cells, later referred to as iPSC (*figure 3*). For example, through this process a scientist can make a pluripotent stem cell from a common skin cell. The two main advantages of iPSCs over embryonic stem cells are the lack of need of embryos and the possibilities to derive patient-specific stem cells. This latter advantage is thought to be key for developing effective regenerative medicine and, in general, to expand and deepen at a cellular level the knowledge on mechanisms of diseases and their patient-specific mutations.

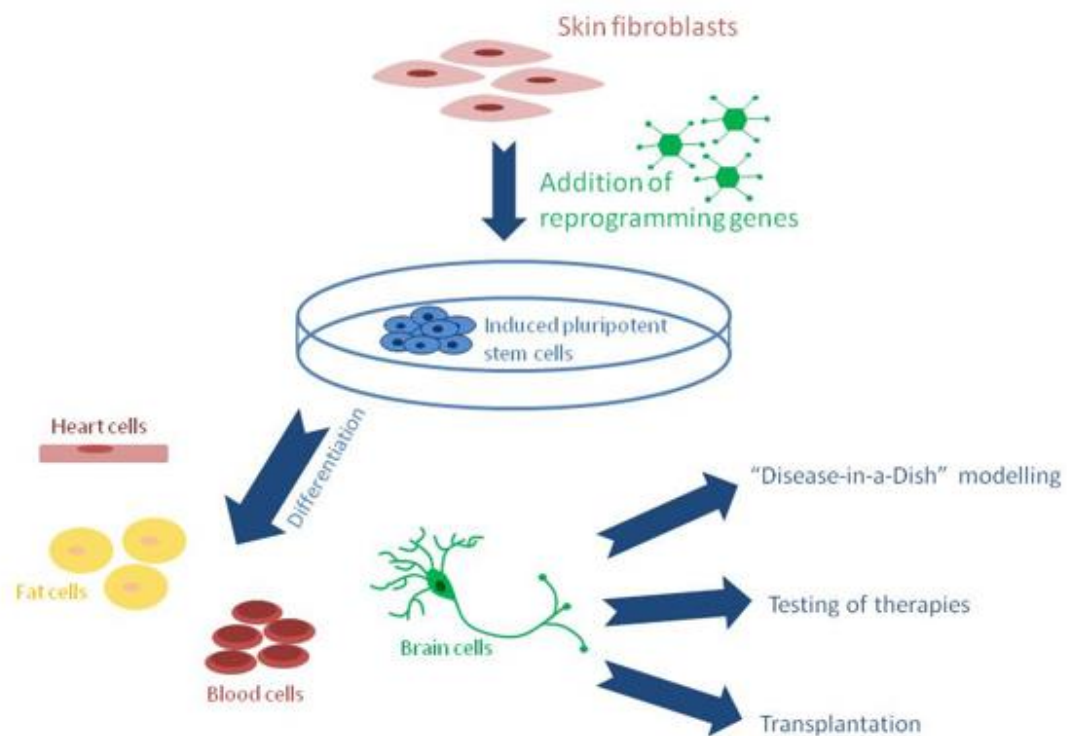


Figure 3. Induced Pluripotent Stem Cells (iPSCs): derived from patient's adult cells, they can then be converted in virtually any type of cell in the body and be used for drug discovery, therapy, or even transplantation.

Evotec has built an avant-garde iPSC infrastructure, through important collaborations with Harvard University, other research centers and companies like Celgene and Sanofi, with the goal of optimizing and industrializing the robustness and reproducibility of the process. This allows to bring iPSC technology up to speed with the needs of the biotech/pharma world and puts it in the position to generate innovative targets and therefore innovative disease-specific medicine. This is just an example of how Evotec excels in being at the forefront of technology for drug discovery.

Leadership

Evotec is led by Dr. Werner Lanthaler who was appointed CEO of Evotec in March 2009. Prior to joining Evotec in 2009, he served as CFO at Intercell AG, starting from the year 2000. During his leadership role, Dr. Lanthaler guided Intercell through many major milestones, including the 2005 IPO, launch of drugs in the market, and company's acquisitions and partnerships. Dr. Lanthaler previously also served as a senior management consultant at McKinsey & Company. He holds a Ph.D in economics from Vienna University, a master's degree in public administration from Harvard University, and a degree in Psychology.

We deem Dr. Lanthaler not only to be a visionary leader but a savvy business man as well. Under his leadership Evotec acquired several research units to expand its business offering and closed collaborations with companies and institutions that are at the forefront of innovation in the biotech industry. To highlight one of his smart moves, Evotec took over a lab specialized in infectious diseases of Sanofi in Lyon in 2018. Instead of Evotec paying for it, Evotec struck a deal under the terms of which Sanofi paid € 60 m to Evotec on top of providing Evotec with additional, significant long-term funding for the employees that are part of the lab. In return Sanofi received the right to occupy 40% of the employees' time in that lab. Ultimately, Evotec got the R&D site for free, including payment of its personnel for the first five years. A great example of how one company is helping the other to generate a more efficient use of labor force by letting it be exploited by multiple clients. This agreement came three years after Evotec took over Sanofi's Toulouse small molecule R&D site and more than 200 of its chemists. Sanofi committed to pay Evotec \$275 million over five years to get the Toulouse site off its hands. In both cases, Sanofi has sidestepped the ticket of labor laws that come into play when closing sites in France by getting Evotec to take on the operation. Evotec recognized this need of Sanofi and used it to its advantage.

Lastly, Dr. Lanthaler has an outstanding ability to present Evotec's investment case in a captivating way, that allows investors to quickly recognize the company's present and future value.

Outlook

Evotec has grown greatly in the past few years, but we believe there is still large potential due to a continuous outsourcing trend within the industry. Evotec can meet such demand thanks to its competitive one-stop shop capabilities combined with the economics of scale it can make use of. Moreover, Evotec is an early adopter of innovative sought-after technologies, which allows to exploit their full potential and to attract new partners as well as clients.

Best regards on behalf of the Aescap 2.0 team,



Patrick J.H. Krol
Portfolio Manager Aescap 2.0

About Aescap 2.0

Aescap 2.0 is an open-end mutual fund investing in public biotech companies that develop and market next generation medical treatments. Within its focused portfolio of around 18 companies it diversifies over different diseases, development phases and geographies. Companies are selected for their growth potential ('earning power') and limited risk (technological and financial).

The selection of companies is based on 'high conviction' - extensive fundamental analyses combined with intense interaction with management and relevant experts. The fund's performance is fueled by stock picking and an active buy and sell discipline. Biotech stocks are known for their extreme low correlation and high volatility, caused by media, macro-events and short-term speculative investors. This creates an ideal setting for a high conviction fund manager to invest in undervalued companies with a great mid- and long-term earning power. The fund has an average annual net performance target of 20%+ over the mid-term (4-5 years).

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Disclosures for Swiss Investors:

The Fund has appointed Hugo Fund Services SA, 6 Cours de Rive, 1204 Geneva, Switzerland, as its Swiss Representative. Banque Heritage SA, 61 Route de Chêne, CH-1207 Geneva, Switzerland is the Swiss Paying Agent. In Switzerland shares of Aescap2.0 shall be distributed exclusively to qualified investors. The fund offering documents and audited financial statements can be obtained free of charge from the Representative. The place of performance with respect to the shares of Aescap2.0 distributed in or from Switzerland is the registered office of the Representative.

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