

EVO Earnings Call Transcript

Date: 2025-08-13

Quarter: 2

Operator: Ladies and gentlemen, welcome to the Evotec SE Half Year Report 2025 Conference Call. I am Mathilde, the Chorus Call operator. [Operator Instructions] The conference is being recorded. [Operator Instructions] The conference must not be recorded for publication or broadcast. At this time, it's my pleasure to hand over to Volker Braun, Head of IR and ESG. Please go ahead.

Volker Braun: Thank you, Mathilde, and good morning, good afternoon to everyone in the call. Thank you for joining us today. Today, we will cover our first half 2025 results, and we will discuss the progress we have made in the execution of our strategy as well as the key operational and external developments. We will, of course, also provide an update on the evolution of the Just - Evotec Biologics business, of which the planned Sandoz deal is part of. However, because of the running process, we will not dwell in the details as such. We appreciate your understanding. Before we start, the usual 30 seconds on housekeeping items. On Page 2, we share the cautionary language with you. Some statements will be future-looking based on information available today, and they might be subject to change in future. But now let me hand over to the CEO of Evotec, Dr. Christian Wojczewski. Christian, please.

Christian Wojczewski: Good afternoon, and welcome to our H1 call. In April this year, we unveiled a new strategy, a strategy that sharpens our focus on pioneering drug discovery and development, with a plan to center our business around its core technology and scientific strength to cultivate operational excellence and to place us on the path to sustainable profitable growth. As we reflect on the first half of 2025, we can say with confidence that we've made meaningful progress on our journey. Our transformation efforts are on track and delivering tangible gains. Just – Evotec Biologics remains on a strong growth path, driven by our unrelenting focus on technology leadership in biologics. In other areas, we're actively managing continuing market challenges. We will talk about all of this today. To be in a position to sustainably shape the future, we are following a structured and disciplined process, and we're delivering on it. We took immediate action in 2024 when resetting priorities was essential, and we're ahead of plan in achieving our cost saving targets. Paul will elaborate on this later. In Q3 2024, we announced the launch of an in-depth strategic review, which we completed according to plan. The retooling of Evotec is starting to materialize. We're strengthening our competitive position in the field of drug discovery by focused investments into our technology platforms. A great example is the expansion of our molecular patient database. And we are further evolving our business model at Just - Evotec Biologics. Next on our agenda, we're now aligning the organization with our strategy. This work is currently underway, and we expect it to be completed before end of the year, ensuring we are all well positioned to compete and perform even more effectively in the years ahead. The core element of our new strategy is to sharpen our offer and reduce complexity. Furthermore, we're upgrading our commercial model, providing stand-alone services, integrated drug discovery and strategic partnerships. The business segmentation and terminology of our reporting should reflect our new setup. Consequently, going forward, we will have 2 core business segments reported as Discovery & Preclinical Development, D&PD;, and Just - Evotec Biologics, JEB. D&PD; covers our discovery and development activities for small molecules and new modalities from target identification to IND. Just - Evotec Biologics is covering our large molecules business. Our vision unites both business segments. We are unleashing innovation to enable our partners to develop life-changing medicines. Pioneering

drug discovery and development for us means leveraging cutting-edge technology, disruptive science and AI-driven innovation to drastically accelerate the journey from concept to cure. Let me now share with you some observations on the developments during the first 6 months of the year. H1 has not been without its challenges. We saw a revenue decline in our Discovery & Preclinical Development segment of 11%. A large part of that is related to a temporary effect in our BMS collaboration. The remainder is driven by continued softness in the early drug discovery market. In the first half, we've seen higher negative change orders compared to the previous period. Most of these change orders are related to scientific reasons, and the impact can be volatile. In the start of the second half this year, we are back to normalized levels of change orders. Furthermore, since beginning of Q2, we are seeing a steady increase in number and value of proposals going out to customers. We continue to progress well in both of our collaborations with BMS in neurology and oncology. In Q2, we further expanded the scope of our molecular patient database by joining the NURTuRE consortium. I will share the strategic rationale with you later in the call. We've initiated the rollout of a new operating model to align our organization with our strategy to simplify our segment structure, reduce management complexity and layers, most importantly, to increase accountability for results in all parts of the organization. This isn't just a reorganization, it's a reorientation towards both operational and science excellence. Just - Evotec Biologics continues to outperform. With 16% revenue growth year-over-year, JEB is not only enjoying high demand and delivering strong results above our expectations, it is validating our vision, a vision where we shape a new segment in the biologics manufacturing market with differentiated and scalable technology. We remain bullish about the prospects of our JEB business. At the end of July, we announced the planned sale of our Toulouse site to Sandoz. This is a natural progression in the J.POD life cycle, and it marks a major milestone in our strategy to lean into JEB's capabilities as a scalable technology provider with an asset- lighter model. Now let me spend a few words on the relevant market environment we are operating in. We're navigating a complex funding landscape in biotech. While venture capital inflows are stabilizing at pre-pandemic levels, the distribution remains uneven. Early-stage investments such as seed and Series A rounds, which typically support companies with projects in discovery or preclinical phases, continue to lag behind later-stage funding. The funding equilibrium between discovery and preclinical on the one side and clinical stage companies on the other has yet to be achieved. We continue to observe a cautious spending behavior in earlier stage R&D.; In contrast, clinical programs, many of which originated during the well-funded pandemic years, benefit from more robust financial backing and spending. Our customer base in biotech is mostly focused on discovery and preclinical research. Funding for this sector is still behind normal pre-pandemic levels and spending behavior, therefore, is more careful. Signs of a modest recovery in funding are emerging. Over the coming quarters, we expect a more normalized distribution of funding and project flow to take shape. Let me now hand over to Paul Hitchin, our CFO, to guide you through the H1 financials. Paul, please?

Paul Hitchin: Thank you, Christian, and a warm welcome from my side. Now let me guide you through the first half results in more detail. Our first half 2025 group revenues reached EUR 371 million, a 5% decrease versus the first half of 2024, which has been impacted by 2 counterbalancing effects. Firstly, our D&PD; revenues declined by 11% to EUR 269 million in a persisting soft market, as Christian alluded to during his introduction. Included in this result is the expected temporary decline in BMS revenues in 2025. Excluding the expected BMS revenue decline, there is a normalized year-on-year decline of 6% in the D&PD; segment. As I mentioned in our last call, looking forward for BMS, we have strong work packages and an excellent asset pipeline. In contrast, Just - Evotec Biologics has continued to grow strongly in the first half of 2025, reaching EUR 102.2 million of revenue, which is up 16% versus the first half of 2024. The majority of the year-on-year growth is driven by the excellent growth of our business with non-Sandoz and DOD customers as we broaden our customer base. Our first half 2025 Sandoz business grew low single digits on a strong 2024 comparative, and our partnership with the DOD saw some low value decline in revenues. Our remaining business showed an excellent growth in the first half with 87% growth versus prior year, underlying our very positive outlook for the Just - Evotec Biologics business. It's worth noting that amongst our growing Just customer base, we have 3 major pharma companies who meaningfully contributed to our first half growth performance. Our R&D; spending has reduced by 35% versus prior year from EUR 29.3 million in the first half of '24

to EUR 19 million in the first half of 2025 as we direct our investments to those most relevant for our partners. Our spending is broadly in line with our new expected run rate for the year as we continue to focus our R&D activities. Adjusted group EBITDA reached negative EUR 1.9 million, driven by stronger-than-expected contribution of EUR 7.5 million from the Just - Evotec Biologics business, helped by positive operating leverage despite the Just organization build-out that we articulated in our April call. The strong contribution of our Just - Evotec Biologics business helped offset the lower operational leverage from the soft revenues in the D&PD segment. Despite the lower revenues in our D&PD segment, we have only seen a moderate impact on profitability. We are executing operationally with rigor. Our cost-out initiatives are progressing well with the initial target for the disciplined spending and hiring activities already being reached and the external spend management progressing as expected. In addition, we have added a further recurring cost reductions with an additional 2025 impact of around EUR 10 million in the D&PD business. This takes our 2025 cost reduction plans to over EUR 60 million, including the EUR 30 million full year impact of the Priority Reset program. Our additional measures are focused on lower external spending, higher restrictions across all of our sites. In summary, we have now reached an FTE reduction of 600 since March 2024, which is 200 FTE above the original Priority Reset target, and we've already realized about 50% of our updated cost-out target of EUR 30 million. Continuing with our cash flows. In line with our expectations, operating cash flow further improved in the second quarter, including the expected receipts of the BMS completed work packages that we announced previously. Investing cash flow in the second quarter of 2025 is in line with our Q1 figures and is largely driven by our CapEx spending of EUR 19 million in the second quarter of 2025. Our first half 2025 CapEx saw a 50% decline to our 2024 levels as we move towards the new CapEx base level I mentioned in the April update. Overall, our liquidity has been developing as we expected with a decrease of EUR 23 million to EUR 348 million, driven by regular lease and scheduled debt payments of EUR 18 million and a negative FX difference of EUR 7.5 million, both partially compensated by positive net inflow from operating and investing activities. We have stable financing and proactive liquidity management. And following our decision to cancel our unutilized and not currently required RCF facility, our financing is no longer restricted by covenants. Now let me hand back to Christian, who will provide an update on some of our strategic developments.

Christian Wojczewski: Thank you, Paul. Let us now dive deeper into strategically important developments in both segments, D&PD and JEB. Our commitment to technology and science leadership remains unwavering. The continued development of our molecular patient data platform, E.MPD, underscores our dedication to precision medicine. Most recently, the platform was expanded to include the NURTuRE cohort comprising approximately 3,000 patients with acute kidney injury. It's our conviction that deep understanding of molecular mechanisms based on real patient data are fundamental to accelerate the drug discovery journey and to better support target identification and validation. What sets Evotec's MPD apart is the unparalleled breadth and depth of its patient-related data, encompassing both high-quality clinical information and a wide range of omics data. This level of quality, depth and consistency clearly differentiates it from publicly available data sets. With data from over 27,000 patients across chronic kidney disease, immune-mediated inflammatory diseases and metabolic disorders, we're reinforcing our leadership in these therapeutic areas. But our ambition goes further. Our molecular patient database has now reached critical mass, enabling us to explore disease areas beyond our initial focus. As is often the case, many patients suffer from multiple comorbidities, opening new avenues for discovery. For example, we're now identifying and validating novel targets in women's health. Another area that has reached critical mass is obesity, one of the most active research fields in biopharma these days. And we're committed to systematically expanding our database to deepen disease understanding where there is both medical need and commercial opportunity. Our industry-leading kidney franchise exemplifies how scientific and technological leadership in drug discovery opens up business opportunities that go far beyond traditional CRO services. It expands our addressable market and significantly enhances value creation. Evotec not only earns revenue through service fees but also participates meaningfully in the success of partnered programs via milestones and royalties. High throughput omics alone would usually not qualify for substantial commercial upside. The true value lies in the ability to translate data into actionable insights. This is the essence of our model, empowering others to discover and develop innovative treatments. In chronic kidney disease, we've

repeatedly demonstrated our ability to scale the platform, as illustrated here in this chart. And we're applying the same capabilities to diseases driven by inflammatory and immunologic mechanisms. As our patient database continues to grow, it will serve as a catalyst for new strategic collaborations. Moving over to our large molecular business. With regard to Just - Evotec Biologics, back in April, I explained that the potential of this asset is not yet fully exploited and that we're considering ways to better monetize our technology. We're planning to further strengthen our intellectual property and leadership position in a continuous manufacturing process technology in cell lines and other areas. This will allow us to enlarge our addressable market, providing access to new revenue streams and growth. We also announced that we are pivoting towards a CapEx lighter business model, and we are not contemplating to invest into a network of J.PODs. The new strategy will significantly improve our return on invest through better revenue mix with higher-margin business and reduced demand for capital. Today, a few months after announcement, this strategy is already starting to get in shape. At Just - Evotec Biologics, we are entering into a new area of biomanufacturing, one defined by agility and scalability. We think that narrowing down this business model as simply a manufacturing and capacity play does not give it justice. Just like we're developing the next-generation technology platform for small molecules in our D&PD; business, we're now also shaping the next-generation CDMO model for biologics. Our customers are excited about the cutting-edge features of our technology and the new degrees of freedom it offers to them to manufacture biologics. Our goal is to enable them to bring the next generation of medicines to market faster, smarter and more sustainably, a top quality and unrivaled efficiency, regardless if with Evotec-owned manufacturing capacity or indirectly through our technology. Our U.S. operations have always been and will remain the center of excellence for biologics discovery, process development and manufacturing, and that is where we will continue to innovate. In light of a deep funnel of projects with originators, we see ample opportunities to grow while we pivot towards an asset-lighter business model, leading to a high return on investment. Within the classic CDMO market for biologics, which is characterized by a robust double-digit market growth, Just is shaping the subsegment for continuous manufacturing. Technology advantages will allow this new segment to gain share over the next couple of years. Beyond the manufacturing market, Evotec will now be able to also tap into adjacent opportunities, such as the market for cell lines and serum-free media, both expected to grow at healthy rates. Those product classes are developed in-house at Just - Evotec Biologics. They are today important components of an integrated or stand-alone offering together with our process technology. Given the industry-leading performance of our cell lines and media, we're able to elevate the output and efficiency of biologics manufacturing to the next level. We're, therefore, comfortable that we will be able to create exciting new business opportunities beyond the classic capital-intensive CDMO play. To the extent possible, let me now briefly address the recently announced agreement with our partner, Sandoz. On July 30, Evotec and Sandoz announced the signing of a nonbinding agreement regarding the potential sale of Just - Evotec Biologics EU, which owns the J.POD Biologics manufacturing facility in Toulouse, France, and to grant access to its proprietary platform for integrated development and advanced continuous manufacturing of biologics via a technology license. The agreement is a testament for our world-class continuous manufacturing technology and reflects the successful progression of our strategy to leverage our capabilities in a more capital-efficient way. This step marks the natural evolution of our partnership. The site in Toulouse has been dedicated entirely to Sandoz since July 2024. We're now progressing to the next phase in which we will hand over the site to Sandoz, while our partnership will move towards enabling Sandoz to manufacture on site and to a new revenue model. The planned transaction perfectly matches with our strategy to move toward an asset-lighter, higher-margin business model, one that leverages our proprietary technology, scales through partnerships, removes the capacity ceiling for growth and delivers superior returns. Through the planned transfer of our J.POD Toulouse facility to Sandoz, we're monetizing a world-class asset while retaining the core IP, the platform capabilities and the strategic upside. It's a deployment of our technology at scale through a trusted partner in a way that accelerates both impact and profitability. It comprises economic benefits in the short, medium and long term, including around USD 300 million consideration for the site, plus technology license fees, multiyear development revenues, milestones and royalties. What are the next steps? We have entered a phase of trustful discussions with the works council representatives. Closing of the planned transaction

remains subject to completion of the relevant information and consultation processes with employees and their representatives, final contractual agreements and meeting regulatory requirements expected in the fourth quarter. The planned transaction would immediately improve Evotec's revenue mix, profit margins and capital efficiency. I'm aware this call will not answer all your questions. We are informing the markets based on the release you saw on July 30 and because of the advanced stage and the materiality of the transaction. More details will follow once we have concluded the process. Hence, we will not go into further content of the deal today. After having adjusted our revenue guidance and keeping our EBITDA guidance unchanged in July, we confidently confirm our full year 2025 guidance. Whilst foreign currency fluctuation has had an immaterial impact in the first half, we see a higher impact in the second half, which will be offset by improved business mix. The main drivers of our full year adjusted EBITDA profile reflect improved cost performance and changing revenue mix with a higher share of high-margin revenues. With regard to the midterm outlook, the key message is we are on track. Levers for midterm value creation remain the same, and for 2 out of the 4, we can already share that we are making remarkable progress. As discussed, we've received validation for Just's continuous manufacturing technology and made significant progress to a more capital-efficient model that better leverages our technology. And we're ahead of plan in our implementation of operational excellence with further productivity improvements anticipated in the near term. Structural changes and mix remain within the boundaries of our midterm outlook. Our asset pipeline is on track with an unchanged number of 6 programs in clinical trial stage. It is encouraging to see that discussions with customers translate into tangible results. Once the transaction with Sandoz is signed, we can confidently state that the visibility towards our midterm goals will improve substantially. Therefore, our 2028 aspiration remains bold but grounded, 8% to 12% revenue CAGR and greater than 20% EBITDA margin. These are not just numbers. They are reflections of our strategic conviction. With differentiated offerings, operating leverage and continued innovation, we're poised for long-term growth. Evotec is on track. We're moving quickly towards a simpler, more focused organization. The team is energized, strategy is clear. We will continue to shape the future of drug discovery and development. Let's now take your questions. Thank you. Back to the operator.

Operator: [Operator Instructions] The first question comes from the line of Charles Weston from RBC Europe.

Charles Robert Weston: I have 3, please. I'll just take them one at a time. The first is in terms of your guidance for this year. You say you expect a recovery in the balance between early stage and late-stage funding. How much of that recovery is built into the guide for 2025, please?

Christian Wojczewski: So the statement was referring to recovery of the VC funding. We don't expect that this is translating into second half impact...

Paul Hitchin: Charles, it's Paul. What you should -- when we think about the guidance for the year on the D&PD; business, the dynamics that we have seen in the first half, we are planning for similar dynamics in the second half.

Charles Robert Weston: Perfect. Secondly, you've divided your R&D; business into transactional integrated and large pharma. Could you give us kind of a breakdown proportionately of the revenues there? And you've given a little bit of color in terms of what the growth would have been or the smaller contraction that would have been for the first half, excluding BMS. But could you perhaps touch on in terms of those 3 buckets, what the proportions are by revenue and what the current growth rates are, please?

Christian Wojczewski: Charles, we're not breaking this into details and not reporting. But if you recall the last meeting, the last analyst call, I mentioned that the dynamics is such that the transactional part is shrinking relative to the integrated and large partnership portion. So the latter part, the integrated and the strategic partnerships, have been growing in size relative to the transactional over the last couple of years. We expect this to continue also in our strategic planning. That said, I also mentioned that we want to have a more bespoke commercial setup because we feel that we actually can also do better on the transactional side.

Charles Robert Weston: Okay. And just the last question. I appreciate you've been clear you're not going to provide concrete numbers on the impact on the Sandoz deal. But can you just perhaps give us some color philosophically on how we should be thinking about the value transfer from Evotec to

Sandoz from this deal in return to that EUR 300 million. So if I'm looking out a number of years, how should I be thinking about the potential EBITDA contribution from this deal -- post this deal compared to before, appreciating they're hard numbers?

Christian Wojczewski: All right. So let me maybe make a couple of statements first, and I'm pretty sure Paul in a second will tell you that we can't talk about it. But a bit of context maybe because I fully expect that there will be similar questions also after you, Charles. So first of all, maybe a bit broader context here. We are executing our strategy from a position of strength. We've got a proven world-class technology at Just - Evotec Biologics. Our customers are excited about the cutting-edge performance of the cell lines, the media, the processes, our development capabilities. We are growing outside of the Sandoz and DOD business at high speed. If you maybe have caught the number that Paul was mentioning, 87% in the first half. So it's growing at fast speed. The value -- in our view, a majority of the value of the business sits in the technology capabilities IP people will have. We said earlier this year that we plan to monetize this value better. You've heard us talking about licensing fees. You've heard us talking about royalties. We also said that we want to enable our partners to use the technology. So you've heard us talking about continued revenue flows and milestone payments. And yes, we are also selling a site for which the consideration is around \$300 million. So think about this as a partnership that has been going on since long. And now we're changing a bit the parameters. But obviously, we do that because it fits perfectly with the strategy and because we think it makes economically a lot of sense. Paul?

Paul Hitchin: I think, Christian, you pretty much covered what we can say at this point in time. As Christian rightly says, the consideration of \$300 million reflects the value of the site. In addition, technology consideration, future development revenues, milestones and product royalties will be part of our ongoing revenue streams.

Operator: The next question comes from the line of Brendan Smith from TD Cowen.

Brendan Mychal Smith: I wanted to actually ask a bit more about the D&PD; segment. I understand some of the spending uncertainty from pharma makes sense given everything going on. I'm actually wondering if you can speak just a bit more to what you're hearing in conversations there, and even broad strokes, what some of the trends are in driving those decisions? I guess does it seem to you that customers are shifting spend toward lower-risk indications or away from high-risk innovation? Just kind of wondering if there's anything consistent there to help us understand what could turn that around in the coming months.

Christian Wojczewski: Did you say large pharma or biotech? Sorry.

Brendan Mychal Smith: Both, if you're able to provide it.

Christian Wojczewski: Well, it's probably not a secret that right now biotech is pretty much down, especially when you think about U.S. biotech and particularly East Coast U.S., where there's a lot of business. So that has been going on since quite a while. And I think we've been all talking quarter-by-quarter about the tipping point. We don't see this. We've actually provided you today with a little bit of data and statistics to underpin maybe what has been a bit more anecdotal in the last couple of calls, but those 2 match. So what we see in the funding profile that the early-stage biotech is currently not yet spending the same amount of money that it has been clearly not during the pandemic, but also not before the pandemic seems to be a fact. But it's also anecdotally what we hear from our customers, much more cautious decision behavior. And frankly, we also see that in academics, because as you probably know, we've got an arm, which we call BRIDGE, where we are helping small businesses that come from universities to connect with pharma companies, where we basically do the work for them in early research. It's the same pattern here, much more careful decision-making and spending. When you go to pharma, I think it's not such that you basically have one story to tell. It's not much less homogeneous. Every company is in a different stage of its life cycle. We have partners and customers who are restructuring. We've got others who are forcefully looking into new indications and new target identification. So that picture is a bit more mixed. I hope that helps a little bit.

Brendan Mychal Smith: Okay, got you. Yes, yes, understood. And then if I could just really quickly. Actually, as it relates to your AI capabilities, I know you spoke a little bit to some of the proprietary data sets you've got. I'm actually just wondering if there's been any renewed interest in leveraging, either internally or from your partners just kind of given FDA's recent push, towards more of these

computational modeling technologies. I'm just trying to understand maybe your strategy or applications and how it's evolved recently.

Christian Wojczewski: Absolutely. And thanks for the question, an important topic for us. I hand this over to Cord.

Cord Dohrmann: Yes. So generally, I would say you can definitely feel that there is a generally heightened interest in incorporating and including AI and machine learning technologies and tools into the drug discovery process, which is -- which means that this is not only sort of in regards to safety assessments, largely what the FDA is alluding to, but also in the early stages, target ID validation, in particular, of course, also in the drug design process when it comes to really designing new molecules and optimizing them for further development. So we don't -- I would say, at this point in time, we don't really see sort of that there is a particular very hard push on the front of safety profiling because there's still sort of a lack of data to support especially safety predictions properly in a bunch of areas, but we do see efforts of companies trying to fill this void by generating large amounts of data to build these predictive tools. And once again, here, Evotec is really well positioned through our platform that is especially geared towards omics-driven drug discovery. Omics is sort of more the -- essentially the quantification of biology. And so we feel well positioned for this, not just through the omics arm, but also through our own capabilities in terms of building superior assay systems, iPSC-based, et cetera, but also our own tools that we are developing in-house.

Christian Wojczewski: Thanks, Cord. I should mention we don't talk too much about it, but the computational chemistry is obviously since long an important component of our business anyway. So it's happening. It's not like something fancy in the future.

Operator: We now have a question from the line of Michael Ryskin from Bank of America.

Michael Leonidovich Ryskin: I was wondering if you could comment on the pricing environment you're seeing in -- among your customers? Are they becoming more price sensitive? Is there increasing competition just given the softer demand environment? I imagine more CROs and research partners are competing for some of the same bids and proposals.

Christian Wojczewski: And as I mentioned already during the last call, we have to disaggregate a little bit the business here. Obviously, there's a portion that is more transactional stand-alone services. There's another portion of our business where we have integrated deals and long-term strategic partnerships. As you probably will appreciate, the latter part is less of a price composition here. It's about the value that we bring to the partner through our platforms. And given that there's a lot of IP and also technology leadership around this, it's hard to compete because it's not a service that you put on the shelf of a supermarket. And the more transactional side, obviously, in an environment where the market is more soft, it would be inappropriate to say that this is not happening. We do see that price negotiations are different than it had been maybe 2 years ago. But as I said earlier, the exposure probably on our side compared to CRO players who are 100% in that segment is a bit less.

Michael Leonidovich Ryskin: Okay. Okay. And I was wondering if you could comment a little bit on geographic, if you're seeing anything different from your partners and customers in Europe versus the U.S. versus Asia Pacific. If there are some parts of the world that are a little bit more cautious or maybe a little bit further along in their recovery path.

Christian Wojczewski: I think it's fair to say that right now there is still a lot of traction in the market in the East Asia, China as opposed to, I would say, the other extreme, which is probably U.S., Europe in the middle somewhere, broad picture. So yes, geographically, there is different behavior, different market dynamics right now. Our exposure, as you know, is geared towards Europe and U.S., and so probably right now not benefiting from the trends that we see in China. But we also believe that if the market is actually returning, that we should then over proportionately benefit from the geographic recovery.

Operator: The next question comes from the line of Fynn Scherzler from Deutsche Bank.

Fynn Scherzler: I have a couple of questions on the JEB business. I understand you cannot speak about the deal specifically. But maybe you can help us understand the mix of the JEB business as it stands now. So how much of the revenue in this segment is drug production in your own J.PODs at the moment versus actually already high-margin licensing revenue? And you spoke about the high growth with non-Sandoz customers. Can we assume this is mostly licensing revenue? Or is this potentially

production revenue in the Redmond side? And I would have actually thought that the Sandoz ramp-up would by now be the majority of the growth. Will this be more meaningful in the second half of the year? Or how should we think about the Sandoz ramp-up contribution for this year? And then sorry, just a last confirmation. For the J.POD, I think the Toulouse one, you had indicated in the past that the revenue number when it would be fully utilized would probably be around EUR 300 million or around the CapEx that you spend for it. If you could just confirm that for us.

Christian Wojczewski: On the mix, the question around drug product versus licensing, the deals that we do are not today like you either buy a license or you buy the product. It's a package today, and that's also how we do our contracts and deals. So you get the access to the license through the contracts that we have with our partners. And as part of that, there is development and, where needed, also production. So we're not splitting this out. So right now, there is not a product line for tech licensing and a product line for the product as such. I guess what you've heard me saying is that we want to give more weight into the individual components going forward. And that's the right thing to do because we believe we can sell both as an integrated offer, we can sell it both as a stand-alone. But we have not fully explored it in the past. So I can't give you a number, but there will be more emphasis going forward on the individual parts. With regard to the number pace, Paul, do you want to...

Paul Hitchin: Yes. Just a couple of follow-ups there, Fynn. So as Christian said, in terms of the mix, existing package today, we're looking to monetize our assets fully. So we see an improving mix as we look forward for the business. When you think about the non-Sandoz customers and the growth that we've seen in the first half, I think it's fair to assume that it's predominantly development and production revenue versus a sizable license element at this point in time. And then as I look out -- as your question pertains to kind of my comments on Sandoz in the first half, well, as you know, we have some level of variability with each of our customers as we progress milestones, and I would expect the same going forward as part of our normal business.

Fynn Scherzler: Okay. Great. And sorry, on the \$300 million CapEx for the J.POD, could you confirm that this is roughly the size of revenue that we should think about for the asset?

Paul Hitchin: Yes. What I would say is when we think about the consideration that we've got for the site, based on current book value, we would expect that to exceed current book value.

Operator: We now have a question from the line of Christian Ehmann from Warburg Research.

Christian Ehmann: I'm trying to piggyback on my previous colleague's question. So could you help us understand the rationale to now consider a sale of the J.POD 2 in Toulouse at this moment in time, so just before -- or at least once you finish building up the asset and then considering a sale? I would really like to get a sense what the more detailed, let's say, rationale is for the sale?

Christian Wojczewski: And apologies if I may be repeating a couple of messages here, but it's just exactly following our strategy. We've reviewed where we want just to be in the future. We've communicated this in April, and we're now executing. So it is exactly the right timing, and there's actually not more to say about it.

Operator: The next question comes from the line of Joseph Hedden from Rx Securities.

Joseph Hedden: Just interested to dig in a little on your efforts on enhancing the D&PD; offering for kidney diseases and perhaps some metrics. So it would be helpful to understand what proportion of current revenues come from projects in the kidney disease space? And where do you expect that to be around the time of your midterm outlook in 2028?

Christian Wojczewski: This goes straight to Cord as well.

Cord Dohrmann: So a core piece -- or let me start this way. We believe at Evotec that really very important decisions in the drug discovery process are, of course, made in the preclinic. And one of the most important decisions you can make here is to identify a target that you believe is relevant for a particular disease, disease progression in patients. And this is a field that is gaining more and more traction and interest all over the industry, I would say, with the advent of omics technologies. And here, I'm meaning not just genome analysis or genome sequencing, but in particular the profiling of disease-relevant tissues down to single cell resolution level. And particularly using transcriptomics, allows us to have a deeper view into disease-relevant mechanisms that are driving disease processes, and thereby, identifying novel targets that have the potential to very significantly interfere with disease progression in patients and have a disease modification effect, maybe even leading up to a cure. So we

continue to invest into this field. We have shown in the past that through our investments into the deep profiling of kidney disease patients that we were able to strike very interesting partnerships in chronic kidney diseases with really top-notch pharma partners such as Bayer, such as Lilly, Novo, Novartis, et cetera. And we continuously keep following the strategy now to go beyond chronic kidney diseases, most recently into acute kidney injury, but as we have announced last year also in obesity and I&I; essentially. So this is a continuous strategy, and we intend to follow this going forward. And we believe that these insights will not -- in molecular disease mechanisms will not only be helpful in identifying targets, but they will be extremely helpful also in tracking the profiles of drug candidates through the preclinic and even into the clinic. So the most advanced molecule we currently have out of these efforts is currently in Phase I together with Bayer. And we are very excited about this program. We believe this program will be moving forward in the future, and there will be many more to come and follow this path. So generally, we feel that this is a very high-value strategy for Evotec. It really speaks to the strength of Evotec in running integrated drug discovery programs as we are partners in the pharmaceutical industry. And based on this, we want to continue. And this involves, of course, AI-driven drug discovery. It involves NAMs. It involves all of these components that we can bring to bear on these programs. I hope that helps a little bit.

Joseph Hedden: Yes. And perhaps if I could just have one more related to the questions and comments that we've already had on Just, and specifically, the broadening of the customer base. I'm just interested in what types of customers are you seeing. Are these foundations, biotechs, large pharma? And are these all development work packages that you previously spoke of? Or some perhaps a bit closer to commercial stage? Any color there would help.

Christian Wojczewski: Yes. So all sorts of from small to big. And I think we also said that a majority or a big chunk of the growth that we've seen in the first half is actually derived from 3 large pharma companies. So you actually see that it is cutting across the whole chain from biotech to pharma. Given the current nature, this is not late-stage clinical. It's earlier.

Operator: We now have a question from the line of David Floren from DSF Capital.

Unidentified Analyst: I wanted to ask or just say it's good to hear, Christian, that you mentioned that you're negotiating this deal from a position of strength because it does feel like selling your crown asset near cost and selling and presumably most of your backlog alongside of that. I know you guys aren't commenting on it, but I really do hope that from your position of strength that the tail economics, the milestone, the royalties are not just going to be IRR positive, but are also going to be close to NPV positive because you've already made this big investment, the balance sheet is not in bad shape, and you've done almost all the hard work here. So are you also thinking about it from an NPV basis?

Christian Wojczewski: David, if that's a question, we can say yes to it.

Unidentified Analyst: All right. All right. Great. Great. That's great. And then this big pivot in strategy -- it seems like the most attractive components of Just, outside of the technological advances, are you guys can do the small batches, which lends yourself -- or positions yourself well to do a lot of FIH work. And hopefully -- I thought the strategy was always lock up these biotechs, hopefully some pharmas early in the program, because once these programs start moving through towards commercial launch, the switching costs are way too high. And so you basically -- once you have them early, as long as they're successful, you have them for life. But this seems like -- this pivot, it's unclear to me like if you're kind of maybe not ostracizing, but making it more difficult to get biotech partnerships simply because they don't want to -- most of them are fairly cash strapped. They don't want to commit a ton of capital towards building out manufacturing capacity. And if you're trying to sign up with them later or get them to commit to your asset-light strategy, it will be too late in their development progress, and they're not going to want to switch to you later on. So I'm just curious if this asset-light model really only works with generics and large pharma and if there's a pivot away from like trying to lock up a lot of early-stage biotech as well?

Christian Wojczewski: And you probably will assume we've thought this true well. You are right, FIH is important and it will remain important. The technology works well with complex molecules and it works well with high-density need. So we know that we have excellent sweet spot for certain type of products. And obviously, the CapEx-light model doesn't mean that we cannot provide capacity for those biotech companies. Keep in mind, we've shown a picture with a large facility in the U.S., which is a facility

where we can continue to provide manufacturing capacity to this biotech. We can expand and we can find alternative models to provide capacity. So this is definitely not a change in our strategy, and it definitely does not hamper our ability to bring also this part of the business to Evotec.

Unidentified Analyst: All right. Great. So it's not keeping Redmond, which I thought had a maximum capacity of a couple of trains. I didn't think you could keep growing that. I just wanted to -- I didn't know if at some point you are going to say, hey, we're selling Toulouse, but we may end up having to add another J.POD and kind of do an asset-light and asset-heavy kind of model pivot back to the asset heavy.

Christian Wojczewski: That's definitely not a plan.

Unidentified Analyst: All right. And thanks for providing that color on the 3 large pharmas. I thought -- my guess -- and most of it being early stage, I thought one of them was going to be late stage as you have a customer running a couple of Phase IIIs that you've had with [Povei]. So it does sound nice though that you're getting some early stage potentially larger scale work with 3 large pharmas that's driving a lot of the success currently.

Christian Wojczewski: David, the recurring topic that I unfortunately have in this call is -- I'd love to talk more about the customer deals. So the moment our partner feels we can jointly talk about it, we will do. But unfortunately, on this topic, we are pretty much handcuffed.

Unidentified Analyst: All right. And the last thing, the booking slide that you guys have included in the last few conference calls, is that going to come back? I know it's anecdotal and it seems to be longer duration than it had been historically, but it was nice to see the progress in discovery bookings.

Christian Wojczewski: Are you talking about the royalty slide?

Unidentified Analyst: No, you had a booking slide that had bookings growth by quarter and the last few slides that was showing year-over-year growth, and there was some distortion from the one large contract. But it's nice to see like visually how bookings are progressing, because I think everyone on this call is hoping for -- to see some sort of sign in the turn in discovery business.

Christian Wojczewski: Thanks for the hint. It's a bit of a -- so we've tried to provide you with some leading indicators today when it comes to VC funding. There is a bit of a time gap between the funding, the spending and then the booking and then the revenues. But we'll certainly have a look at it and get back on this topic.

Operator: The next question comes from the line of Douglas Tsao from H.C. Wainwright.

Douglas Dylan Tsao: I'm just curious. I think in the prepared remarks, you made a comment that you did see or have seen an increase in change orders and that they were mostly just driven by scientific issues. I was just wondering if you could sort of provide a little more color on that, if there was anything thematic? And what would be driving this sort of, it sounds like, somewhat systematic increase in these change orders?

Christian Wojczewski: Yes. And that's exactly what I would like to avoid, that it becomes a message of a systematic development. But we also felt that it's an important data point. As I said, mostly scientific reasons. There was a select number of customers with strategic decisions, where they were deciding to reallocate funds into other projects, later stage. Actually it fits well into the message I gave about funding. There is no concerns here whatsoever about business moving outside of Evotec. And it's fair to say, when you look at the pandemic, fewer projects were killed at early stage. Currently, there is more scrutiny, but there's absolutely no indication that this is a trend. And that's why I also said when we just look at beginning of the second half, this trend had reversed. But seriously, I don't want to come across as if I'm indicating here this is a trend.

Douglas Dylan Tsao: Okay. And just as a follow-up -- and I appreciate your point. And I was not trying to say -- suggest it was systematic in terms of sort of increasing occurrence. I guess what I was just curious was if there was some consistency in the types of changes that you are seeing? Is it shifts within therapeutic areas? Is it adoption or preference for different technologies, maybe a philosophical change in terms of how people are pursuing R&D; programs?

Christian Wojczewski: Not at all, not at all. No pattern here.

Operator: [Operator Instructions] We have a follow-up question from the line of Charles Weston from RBC Europe.

Charles Robert Weston: So a couple of quick ones. First of all, we're now halfway through Q3. So Paul,

I was wondering if you could give us a sense of what the Q3, Q4 phasing might be in DPD, which I think tends to be more Q4 weighted, and also Biologics?

Paul Hitchin: Yes. So as I said earlier, the revenue profile for the full year for DPD is pretty consistent with the first half dynamics. So we see that for DP&D; in the second half to look a little bit like the first half from a growth profile. That said, from the Just business, we see a significant step-up in the second half from the 16% growth rate that we've seen in the first half. And then when you think about the phasing, I would expect our overall profile to be consistent with what we saw in 2024 with a significant contribution in the fourth quarter.

Charles Robert Weston: And just one last one on the Sandoz deal. Previously, when you did the deal with Sandoz, you indicated that there were obviously supply components, but you also had technology licenses, milestones, royalties, et cetera. Has that -- is that staying unchanged and you're selling the asset? Is that the way to think about it? Or is the whole deal being renegotiated as part of this?

Paul Hitchin: I think you should think about the Sandoz arrangement to be a holistic arrangement as we move to a new chapter in our relationship. So it will be...

Operator: Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Volker Braun, Head of IR and ESG, for any closing remarks.

Volker Braun: Thank you, Mathilde. And we would like to thank all attendees in today's call and hope to see as many of you as possible at the various conferences in September and October, and look forward to catch up in our next regular result call on the 5th of November. Until then, I hope you can enjoy the rest of the summer. And thank you. Goodbye.

Operator: Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call, and thank you for participating in the conference. You may now disconnect your lines. Goodbye.