

Evolve

Headroom improves

Evolve has secured equity financing of up to CHF30m. This is a fully flexible arrangement with relatively good terms, which if drawn down in full would give the company about one year's worth of cash. As an interim arrangement this allows headroom to increase considerably and should help management's negotiating position with its partner, Cargill, as details of the stevia JV are yet to be agreed. Our valuation of CHF0.87/share remains unchanged.

Year end	Revenue (CHFm)	PBT* (CHFm)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	13.4	(32.1)	(8.0)	0.0	N/A	N/A
12/16e	9.6	(32.2)	(8.1)	0.0	N/A	N/A
12/17e	14.9	(31.4)	(7.7)	0.0	N/A	N/A
12/18e	53.2	(29.4)	(6.9)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

All eyes on stevia

As indicated by management with the trading update in January, the production of EverSweet is likely to involve a retrofit of the Cargill facility in Blair, Nebraska. The relatively small retrofit should ensure EverSweet retains its first-mover advantage ahead of DSM's launch of a stevia sweetener in late 2018, and there would be a subsequent move to a new Evolve/Cargill facility. Both the retrofit and the new facility are subject to Evolve exercising its option to enter into a JV with Cargill. Talks have been ongoing for over a year now, and the risk remains that the two parties cannot reach an agreement that Evolve deems to be value-creating for its shareholders. Management still expects an agreement to be signed in the spring.

SEDA is flexible

The Standby Equity Distribution Agreement (SEDA) with a fund managed by Yorkville Advisors stipulates that Evolve can call upon up to CHF30m in equity financing over a 36-month period, in individual tranches of up to CHF1m. Yorkville will receive a CHF250,000 cash upfront fee, plus two additional instalments of CHF200,000 when the drawdown crosses CHF10m and CHF20m. In exchange for the funds provided, Yorkville will receive Evolve shares at a 5% discount to the prevailing market price when the shares are placed (ie each time a SEDA tranche is called). There is no obligation for Evolve to utilise any of the facility, hence providing maximum flexibility. At the current share price, the total commitment would represent dilution of c 13%.

Valuation: Fair value of CHF0.87/share

We update our model for the SEDA and FY16 metrics. Our fair value remains unchanged at CHF0.87/share. Evolve is well-capitalised with a cash position of c CHF47.5m at end FY16. We forecast it will have enough cash through to the end of FY18. However, if the option to enter into a JV with Cargill is exercised in 2017 and the accelerated move to a new stevia manufacturing facility goes ahead, Evolve may need to raise more cash and re-evaluate its balance sheet, most likely during FY18.

Increased financing

Food & beverages

16 March 2017

Price **CHF0.56**
Market cap **CHF223m**

Net cash (CHFm) at end December 2016e	47.5
Shares in issue	397.9m
Free float	76%
Code	EVE
Primary exchange	SIX Swiss Ex
Secondary exchange	OTC US

Share price performance



%	1m	3m	12m
Abs	(5.1)	36.6	(41.1)
Rel (local)	(7.3)	29.1	(46.0)
52-week high/low	CHF0.95	CHF0.39	

Business description

Evolve is a Swiss high-tech fermentation company. It has a proprietary yeast technology platform, which it uses to create and manufacture high-value speciality molecules for nutritional and consumer products

Next events

FY16 results	30 March 2017
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Valuation

We value Evolva on a 25-year DCF basis. Our fair value remains unchanged at CHF0.87/share, which offers c 40% upside from current levels. We assume all product cash flows stop after 25 years and start to fade beyond 15 years; we also assume a WACC of 12.5% given we deem Evolva to be higher-than-average risk in relation to the consumer space. We illustrate a summary of our updated DCF valuation in Exhibit 1.

Exhibit 1: Summary of DCF valuation

Product	Value (CHFm)	Value per share (CHF)	Notes
Stevia royalties	218.9	0.54	Launch date: 2018; peak sales: \$600m; likelihood of success 70%; operating margin: 40%; profit share: 45%.
Saffron royalties	12.7	0.03	Launch date: 2018; peak sales: \$50m; likelihood of success 60%; royalty: 10%.
Resveratrol	91.8	0.23	Launched; peak sales: \$200m; likelihood of success 100%; margin: 40%.
Vanilla royalties	14.7	0.04	Launched; peak sales: \$35m; likelihood of success 100%; royalty: 5%.
Nootkatone	120.3	0.30	Launched; peak sales: \$150m; likelihood of success 75%*; margin: 40%.
Valencene	29.2	0.07	Launched; peak sales: \$10m; likelihood of success 100%; margin: 40%.
Santalol	13.8	0.03	Launch date: 2018; peak sales: \$10m; likelihood of success 60%; margin: 40%.
Legacy products	32.9	0.08	EV-077 for diabetic nephropathy, EV-035 antibiotic indications
L'Oréal/Takasago revenues	105.9	0.26	Launch date: 2020-22; number of products: 5; peak sales: \$150m per product; likelihood of success 50%; royalty: 8%.
Other consumer royalties	36.5	0.09	Royalties from alliances with Ajinomoto, BASF and Roquette; launch date: 2016-18; number of products: 3; peak sales: \$150m per product; likelihood of success 60%; royalty: 2%.
Other revenues	4.6	0.01	Only includes revenues from existing collaborations and grants.
R&D and admin	(252.8)	(0.62)	
Tax	(102.5)	(0.25)	
Capex	(21.8)	(0.05)	Includes investment of \$10m for commercialisation of stevia with Cargill.
Net cash	47.5	0.12	Net cash at end FY16
Total	351.8	0.87	

Source: Edison Investment Research. Note: WACC = 12.5%. *There is no developmental risk associated with Nootkatone, but we have applied a risk adjustment due to uncertainty about the use of the product as an insect repellent.

Exhibit 2: Financial summary

	CHF000s	2014	2015	2016e	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		10,744	13,364	9,628	14,938	53,224
Cost of Sales		0	0	(838)	(3,409)	(37,195)
Gross Profit		10,744	13,364	8,790	11,528	16,029
EBITDA		(19,405)	(30,305)	(31,382)	(30,080)	(28,604)
Operating Profit (before GW and except.)		(20,872)	(31,947)	(32,562)	(31,385)	(32,562)
Intangible Amortisation		(2,284)	(3,779)	(3,779)	(3,779)	(3,779)
Exceptionals		0	0	0	0	0
Operating Profit		(23,156)	(35,726)	(36,342)	(35,164)	(33,807)
Net Interest		(357)	(129)	333	(60)	(93)
Other financial income		57	0	0	0	681
Profit Before Tax (norm)		(21,172)	(32,076)	(32,229)	(31,445)	(29,440)
Profit Before Tax (FRS 3)		(23,456)	(35,855)	(36,009)	(35,224)	(33,219)
Tax		1,613	4,067	0	0	0
Profit After Tax (norm)		(19,069)	(28,113)	(32,229)	(31,445)	(29,440)
Profit After Tax (FRS 3)		(21,843)	(31,788)	(36,009)	(35,224)	(33,219)
Average Number of Shares Outstanding (m)		291.9	353.0	397.9	406.5	423.7
EPS - normalised (c)		(6.4)	(8.0)	(8.1)	(7.7)	(6.9)
EPS - FRS 3 (c)		(7.3)	(9.0)	(9.1)	(8.7)	(7.8)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		149,742	143,457	140,567	142,635	144,671
Intangible Assets		136,111	131,940	128,161	124,381	120,602
Tangible Assets		10,484	8,431	9,320	10,168	10,983
Other fixed assets		3,147	3,086	3,086	8,086	13,086
Current Assets		62,870	88,780	51,121	26,672	21,528
Stocks		313	2,217	918	1,868	12,228
Debtors		1,510	2,785	2,110	2,456	8,749
Cash		60,713	83,228	47,542	21,798	0
Other current assets		334	550	550	550	550
Current Liabilities		(13,460)	(7,385)	(7,556)	(7,610)	(24,932)
Creditors		(2,408)	(1,182)	(1,353)	(1,407)	(1,505)
Short term borrowings		(3,522)	0	0	0	(17,224)
Finance lease obligations		(354)	(969)	(969)	(969)	(969)
Other current liabilities		(7,176)	(5,234)	(5,234)	(5,234)	(5,234)
Long Term Liabilities		(24,158)	(21,437)	(20,468)	(19,499)	(18,530)
Long term borrowings		0	0	0	0	0
Finance lease obligations		(3,904)	(4,134)	(3,165)	(2,196)	(1,228)
Other long term liabilities		(20,254)	(17,303)	(17,303)	(17,303)	(17,303)
Net Assets		174,994	203,416	163,665	142,198	122,737
CASH FLOW						
Operating Cash Flow		(19,437)	(31,353)	(32,980)	(27,563)	(40,721)
Net Interest		(361)	(376)	333	(60)	(93)
Tax		0	0	0	0	0
Capex		(1,201)	(1,865)	(2,070)	(2,152)	(2,239)
Acquisitions/disposals		418	3,278	0	0	0
Financing		56,776	59,956	0	10,000	10,000
Dividends		0	0	0	0	0
Other cash flow		(4,614)	(3,975)	(969)	(5,969)	(5,969)
Net Cash Flow		31,582	25,666	(35,685)	(25,744)	(39,022)
Opening net debt/(cash)		(25,633)	(57,191)	(83,188)	(47,503)	(21,758)
HP finance leases initiated		0	0	0	0	0
Other		(25)	331	0	0	0
Closing net debt/(cash)		(57,191)	(83,188)	(47,503)	(21,758)	17,263

Source: Edison Investment Research, Evolva data

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