

Evolva

FY18 results

New focus starts to bear fruit

Evolva's FY18 results demonstrate that the actions undertaken over the past 18 months are starting to come through into the numbers. Innovation has led to the expansion of ingredients systems with new variants and new markets, and the product pipeline continues to develop. The customer pipeline is progressing, and the maiden royalty payment from EverSweet was received, albeit small. The EPA registration of nootkatone for pest control applications was delayed by the US government shutdown, but is expected in the next couple of months. Our fair value reduces marginally to CHF0.56/share from CHF0.58/share.

Year end	Revenue (CHFm)	PBT* (CHFm)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/17	6.8	(40.9)	(7.0)	0.0	N/A	N/A
12/18	8.9	(25.4)	(3.0)	0.0	N/A	N/A
12/19e	11.5	(15.2)	(1.6)	0.0	N/A	N/A
12/20e	28.4	(6.0)	(0.6)	0.0	N/A	N/A

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

Customer-focused strategy is paying off

Over the past 18 months, Evolva has significantly de-risked its strategy and operations by choosing to remain asset-light and focusing on its existing partnerships. A lot of work has occurred behind the scenes, both to improve the customer and product pipeline in order to maximise potential revenue, and on the expenses side to reduce costs. Variants of resveratrol and valencene have been introduced to drive new applications of the products, but equally the R&D and manufacturing teams have worked together to reduce future manufacturing costs.

FY18 results

Total revenues of CHF8.9m beat our forecast of CHF7.6m, with product revenues a touch lower than expected, and R&D revenues significantly higher. Operating profit was broadly in line with our forecast, and higher interest costs and lower tax income led to a net loss of CHF29.2m, above our forecast of CHF26.1m. Net cash of CHF 60.4m at end FY18 was higher than our forecast of CHF 51.7m. Guidance remains unchanged, with cash break-even still expected in FY21/23. We cut our product revenue estimates in line with guidance for the FY18 trajectory (+70%) to be maintained.

Valuation: Fair value of CHF0.56 per share

We have updated our model to reflect current FX. We continue to value Evolva on a DCF basis with a 25-year model, assuming break-even in FY21, in line with management guidance. We have delayed our assumptions for the use of nootkatone in pest control by a year, to reflect the delay in EPA approval and the guidance that use in pest control is likely to start to make a contribution from FY20. We have also updated our model to reflect the higher than expected net cash at end FY18. Overall, our fair value decreases slightly to CHF0.56/share (from CHF0.58/share previously).

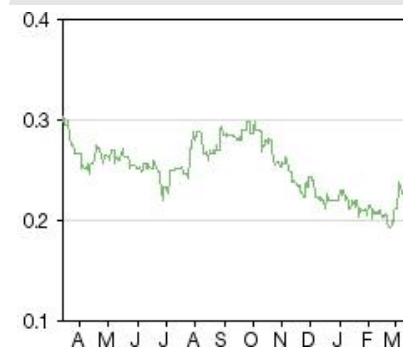
Food & beverages

12 March 2019

Price **CHF0.22**
Market cap **CHF169m**

Net cash (CHFm) at 31 December 2018	60.4
Shares in issue	769.8m
Free float	100%
Code	EVE
Primary exchange	SIX Swiss Ex
Secondary exchange	OTC US

Share price performance



%	1m	3m	12m
Abs	6.2	1.4	(25.3)
Rel (local)	3.1	(5.4)	(28.6)
52-week high/low	CHF0.3	CHF0.2	

Business description

Evolva 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

AGM	8 April 2019
H1 results	21 August 2019

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Valuation

We detail our valuation in Exhibit 1. Our fair value decreases very slightly to CHF0.56/share (from CHF0.58/share previously). As discussed above, we have delayed our peak nootkatone sales by a year (to FY24) to allow for the delay in EPA approval and then further registration, with sales for pest control applications not starting until FY20, and updated the end-FY18 net cash figure to reflect the reported number. We have also cut our FY19 revenue estimates in light of guidance that R&D revenues are likely to be broadly flat and that product revenues will continue on the same trajectory as FY18 (ie +70%). Our FY19 revenue forecast moves to CHF11.5m from CHF17.8m previously.

We still assume that profit break-even for the company occurs in FY21, in line with management guidance, and we now assume cash break-even will occur in FY22, again in line with management guidance, which is that profit and cash break-even will occur between FY21 and FY23.

Exhibit 1: Summary of DCF valuation

Product	Value (CHFm)	Value/share (CHF)	Notes
Stevia (royalty stream)	123.7	0.16	Launched; peak sales: \$600m; royalty stream: 5%.
Resveratrol	13.1	0.02	Launched; peak sales: \$140m; likelihood of success 80%; margin: 30%.
Nootkatone	201.3	0.26	Launched; peak sales: \$150m; likelihood of success 75%,* margin: 40%.
Valencene	19.5	0.03	Launched; peak sales: \$10m; likelihood of success 90%; margin: 40%.
R&D partnerships	27.2	0.04	Assume revenue falls until FY20 and then stabilises.
Capex	-10.1	-0.01	Includes contribution to Cargill for commercialisation of EverSweet.
Net cash	60.4	0.08	Reported net cash at end FY18.
Total	435.0	0.56	Using FY19 average number of shares throughout.

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

We use a 25-year DCF valuation with a fade. Each product has varying peak sales, margins, ramp-up assumptions and probabilities of success, as detailed above. In each case, we reduce the R&D and operating expenditure after launch to reflect the lower level of investment required once the product is established on the market. We start to fade stevia in 2031 (year 13) and the other products in 2035 (year 17), and we also assume they become commoditised and their operating margins fall to the single digits, which is the level of commoditised food ingredients. Stevia remains a key product, at c 25% of our valuation, after adjusting for tax and capex, but note that we see greater value overall in nootkatone.

Our valuation purely reflects the products on which Evolva has chosen to concentrate, and we ascribe zero value to all other alliances/collaborations and other projects. We recognise that the latter do retain some residual value, but for the sake of conservatism we err on the side of caution. Management has stated that if commercial partners were to express an interest in these existing projects (for example saffron or santalol), it would consider them. We also ascribe no value to the three new compounds discussed in the FY18 results, which are relatively close to going to market, but still remain unknown to the market. While the specific nature of these three compounds is unknown, what has been disclosed is that they are 'ready-to-go-to-market' – and hence presumably do not require further extensive R&D – and that two of the compounds have applications in the flavours & fragrances segment (the first also pertains to the human health segment), while the third targets 'several' (unspecified) market segments. Full commercial sales for these products are currently expected in the FY21–23 period.

Exhibit 2: Financial summary

	CHF'000s	2016	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		9,576	6,845	8,933	11,512	28,411
Cost of Sales		(2,951)	(4,698)	(6,816)	(2,611)	(10,384)
Gross Profit		6,624	2,146	2,117	8,901	18,026
EBITDA		(33,965)	(37,601)	(23,350)	(14,518)	(5,600)
Operating Profit (before GW and except.)		(36,078)	(39,776)	(24,827)	(13,045)	(5,027)
Intangible Amortisation		(5,090)	(5,126)	(5,909)	(5,909)	(5,909)
Exceptionals		0	0	0	0	0
Operating Profit		(41,169)	(44,902)	(30,736)	(21,380)	(12,096)
Net Interest		497	(596)	(622)	242	161
Other financial income		(338)	(482)	40	0	0
Profit Before Tax (norm)		(35,919)	(40,854)	(25,409)	(15,230)	(6,026)
Profit Before Tax (FRS 3)		(41,009)	(45,980)	(31,318)	(21,139)	(11,935)
Tax		5,160	7,023	2,104	2,537	1,432
Profit After Tax (norm)		(30,880)	(33,854)	(23,305)	(12,694)	(4,594)
Profit After Tax (FRS 3)		(35,850)	(38,956)	(29,214)	(18,602)	(10,502)
Average Number of Shares Outstanding (m)		452.8	482.1	770.6	770.6	770.6
EPS - normalised (c)		(6.8)	(7.0)	(3.0)	(1.6)	(0.6)
EPS - FRS 3 (c)		(7.9)	(8.1)	(3.8)	(2.4)	(1.4)
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		141,356	132,125	145,825	151,389	150,401
Intangible Assets		130,256	124,487	138,838	132,930	127,021
Tangible Assets		7,522	5,208	4,769	4,193	3,999
Other fixed assets		3,578	2,430	2,218	14,266	19,380
Current Assets		56,880	107,697	67,192	43,650	36,056
Stocks		5,687	8,009	4,040	5,207	12,851
Debtors		2,139	1,831	1,941	2,763	6,819
Cash		47,517	97,185	60,380	34,851	14,125
Other current assets		1,537	673	830	830	2,262
Current Liabilities		(5,690)	(12,261)	(14,705)	(14,245)	(15,080)
Creditors		(1,174)	(1,933)	(743)	(285)	(1,132)
Short term borrowings		0	0	0	0	0
Finance lease obligations		(978)	(781)	(782)	(782)	(782)
Other current liabilities		(3,537)	(9,546)	(13,180)	(13,178)	(13,166)
Long Term Liabilities		(19,489)	(6,840)	(4,150)	(3,358)	(2,567)
Long term borrowings		0	0	0	0	0
Finance lease obligations		(3,564)	(2,400)	(2,394)	(1,603)	(811)
Other long term liabilities		(15,925)	(4,440)	(1,756)	(1,756)	(1,756)
Net Assets		173,057	220,721	194,162	177,436	168,810
CASH FLOW						
Operating Cash Flow		(33,551)	(35,196)	(23,247)	(19,100)	(19,702)
Net Interest		(301)	(379)	(360)	242	161
Tax		0	0	0	0	0
Capex		(947)	(582)	(364)	(378)	(393)
Acquisitions/disposals		(210)	0	0	0	0
Financing		0	86,457	(209)	0	0
Dividends		0	0	0	0	0
Other cash flow		(677)	(658)	(12,595)	(6,291)	(791)
Net Cash Flow		(35,686)	49,641	(36,775)	(25,528)	(20,725)
Opening net debt/(cash)		(83,228)	(47,516)	(97,182)	(60,379)	(34,851)
HP finance leases initiated		0	0	0	0	0
Other		(26)	24	(29)	0	0
Closing net debt/(cash)		(47,516)	(97,182)	(60,379)	(34,851)	(14,126)

Source: Company accounts, Edison Investment Research

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