

Evolve

Potential delay to nootkatone

Evolve has received a letter from the US Environmental Protection Agency (EPA), which has identified a study for which it could not complete its review, and it has requested more information. This letter has come shortly ahead of the expected regulatory registration. Evolve is co-operating with the EPA to resolve the issue, but this is very likely to result in a delay. At this stage it is unclear how long the delay will be, but we assume it could be c 12 months. Our fair value moves to CHF0.53 per share from CHF0.56 per 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	18.8	(9.9)	(1.0)	0.0	N/A	N/A

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

Early days, but delay very likely

Evolve is in close interaction with the EPA to resolve the issue identified, and to determine the next steps. While we do not know the detail of which study the EPA has highlighted, or indeed what information it has requested, we believe a best-case scenario would be a delay of c three months to the process, with the EPA being satisfied with any additional information provided. If the study has to be redesigned and performed again, the delay could be significantly longer. For the sake of conservatism, we assume a scenario of a 12-month delay.

Confidence in nootkatone remains

Evolve remains fully committed to the product, and indeed has been collaborating with the US Centers for Disease Control and Prevention (CDC) to bring the product to market. Evolve is confident that nootkatone will be registered as an active ingredient against ticks and mosquitoes in pest control, which will open up a significant market for the product.

Valuation: Fair value of CHF0.53 per share

While it is unclear at this stage how long the delay could be, for the purposes of our model we choose to assume a 12-month delay to nootkatone approval in pest control. We continue to value Evolve on a DCF basis with a 25-year model. We now model break-even at the net profit (reported) level in FY22 (previously FY21) as a result of the delay. We note this is still in line with management guidance (break-even in FY21/23). We now assume that nootkatone use in pest control is likely to start to make a contribution from FY21 (previously FY20). Overall, our fair value decreases to CHF0.53/share (from CHF0.56/share previously).

Nootkatone delay

Food & beverages

21 March 2019

Price CHF0.24
Market cap CHF185m

Net cash (CHFm) at 31 December 2018	60.4
Shares in issue	770.3m
Free float	100%
Code	EVE
Primary exchange	SIX Swiss Ex
Secondary exchange	OTC US

Share price performance



%	1m	3m	12m
Abs	20.3	11.8	(18.0)
Rel (local)	18.4	(0.6)	(23.3)
52-week high/low	CHF0.302	CHF0.193	

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

AGM	8 April 2019
H119 results	21 August 2019

Analysts

Sara Welford	+44 (0)20 3077 5700
Russell Pointon	+44 (0)20 3077 5700

consumer@edisongroup.com

[Edison profile page](#)

Evolve Evolve is a research client of Edison Investment Research Limited

Valuation update

We detail our valuation in Exhibit 1. Our fair value decreases to CHF0.53/share (from CHF0.56/share previously). As discussed above, we have delayed our peak nootkatone sales by a year (to FY25) to allow for the delay in EPA approval and then further registration, with sales for pest control applications not starting until FY21. This causes our profit break-even to move to FY22 (from FY21). Our cash break-even assumption remains in FY22. These are both 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	173.2	0.22	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	406.9	0.53	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 discuss our DCF valuation fully in our [update note](#) published on 12 March 2019.

As a reminder, nootkatone can be used in flavour and fragrance applications, and indeed has already been launched for this use. The bulk of the addressable market, however, is in pest control, and EPA approval is required for subsequent registration for use in pest control.

Exhibit 1: Financial summary

	CHF'000s	2016	2017	2018	2019e	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		9,576	6,845	8,933	11,512	18,804	43,310
Cost of Sales		(2,951)	(4,698)	(6,816)	(2,611)	(4,620)	(13,727)
Gross Profit		6,624	2,146	2,117	8,901	14,184	29,584
EBITDA		(33,965)	(37,601)	(23,350)	(14,518)	(9,443)	6,013
Operating Profit (before GW and except.)		(36,078)	(39,776)	(24,827)	(15,472)	(10,030)	5,453
Intangible Amortisation		(5,090)	(5,126)	(5,909)	(5,909)	(5,909)	(5,909)
Exceptionals		0	0	0	0	0	0
Operating Profit		(41,169)	(44,902)	(30,736)	(21,380)	(15,939)	(456)
Net Interest		497	(596)	(622)	242	161	89
Other financial income		(338)	(482)	40	0	0	0
Profit Before Tax (norm)		(35,919)	(40,854)	(25,409)	(15,230)	(9,869)	5,542
Profit Before Tax (FRS 3)		(41,009)	(45,980)	(31,318)	(21,139)	(15,777)	(367)
Tax		5,160	7,023	2,104	2,537	1,893	44
Profit After Tax (norm)		(30,880)	(33,854)	(23,305)	(12,694)	(7,975)	5,586
Profit After Tax (FRS 3)		(35,850)	(38,956)	(29,214)	(18,602)	(13,884)	(323)
Average Number of Shares Outstanding (m)		452.8	482.1	770.6	770.6	770.6	770.6
EPS - normalised (c)		(6.8)	(7.0)	(3.0)	(1.6)	(1.0)	0.7
EPS - FRS 3 (c)		(7.9)	(8.1)	(3.8)	(2.4)	(1.8)	(0.0)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	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	N/A
BALANCE SHEET							
Fixed Assets		141,356	132,125	145,825	151,389	149,939	139,383
Intangible Assets		130,256	124,487	138,838	132,930	127,021	121,112
Tangible Assets		7,522	5,208	4,769	4,193	3,999	3,848
Other fixed assets		3,578	2,430	2,218	14,266	18,919	14,423
Current Assets		56,880	107,697	67,192	43,650	32,508	44,819
Stocks		5,687	8,009	4,040	5,207	8,505	19,590
Debtors		2,139	1,831	1,941	2,763	4,513	10,394
Cash		47,517	97,185	60,380	34,851	16,766	12,067
Other current assets		1,537	673	830	830	2,723	2,767
Current Liabilities		(5,690)	(12,261)	(14,705)	(14,245)	(14,452)	(15,445)
Creditors		(1,174)	(1,933)	(743)	(285)	(504)	(1,496)
Short term borrowings		0	0	0	0	0	0
Finance lease obligations		(978)	(781)	(782)	(782)	(782)	(782)
Other current liabilities		(3,537)	(9,546)	(13,180)	(13,178)	(13,166)	(13,166)
Long Term Liabilities		(19,489)	(6,840)	(4,150)	(3,358)	(2,567)	(1,775)
Long term borrowings		0	0	0	0	0	0
Finance lease obligations		(3,564)	(2,400)	(2,394)	(1,603)	(811)	(20)
Other long term liabilities		(15,925)	(4,440)	(1,756)	(1,756)	(1,756)	(1,756)
Net Assets		173,057	220,721	194,162	177,436	165,428	166,982
CASH FLOW							
Operating Cash Flow		(33,551)	(35,196)	(23,247)	(19,100)	(17,061)	(3,588)
Net Interest		(301)	(379)	(360)	242	161	89
Tax		0	0	0	0	0	0
Capex		(947)	(582)	(364)	(378)	(393)	(409)
Acquisitions/disposals		(210)	0	0	0	0	0
Financing		0	86,457	(209)	0	0	0
Dividends		0	0	0	0	0	0
Other cash flow		(677)	(658)	(12,595)	(6,291)	(791)	(791)
Net Cash Flow		(35,686)	49,641	(36,775)	(25,528)	(18,084)	(4,699)
Opening net debt/(cash)		(83,228)	(47,516)	(97,182)	(60,379)	(34,851)	(16,767)
HP finance leases initiated		0	0	0	0	0	0
Other		(26)	24	(29)	0	0	0
Closing net debt/(cash)		(47,516)	(97,182)	(60,379)	(34,851)	(16,767)	(12,067)

Source: Company data, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by Evolva and prepared and issued by Edison, in consideration of a fee payable by Evolva. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the Edison analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd who holds an Australian Financial Services Licence (Number: 427484). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

Neither this document and associated email (together, the "Communication") constitutes or form part of any offer for sale or subscription of, or solicitation of any offer to buy or subscribe for, any securities, nor shall it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Any decision to purchase shares in the Company in the proposed placing should be made solely on the basis of the information to be contained in the admission document to be published in connection therewith.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document (nor will such persons be able to purchase shares in the placing).

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a) (11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960

Schumannstrasse 34b

60325 Frankfurt



London +44 (0)20 3077 5700

280 High Holborn

London, WC1V 7EE

United Kingdom

New York +1 646 653 7026

1,185 Avenue of the Americas

3rd Floor, New York, NY 10036

United States of America

Sydney +61 (0)2 8249 8342

Level 4, Office 1205

95 Pitt Street, Sydney

NSW 2000, Australia