

# Evolva

EPA registration

## Nootkatone EPA registration complete

Evolva's branded nootkatone has now been registered with the US Environmental Protection Agency (EPA) for use in insecticides and insect repellents. This follows the announcement on 1 July of a 15-day public review period, hence registration was expected shortly after the review had concluded. Evolva is now in discussion with a growing number of pest control companies to plan commercial next steps. It is also investing in the development and registration of its own formulations.

Year end	Revenue (CHFm)	PBT* (CHFm)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/18	8.9	(25.4)	(3.0)	0.0	N/A	N/A
12/19	11.5	(15.6)	(2.0)	0.0	N/A	N/A
12/20e	10.7	(13.2)	(1.6)	0.0	N/A	N/A
12/21e	18.8	(8.1)	(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.

## EPA registration: Finally complete

Nootkatone is already used as a fragrance ingredient. Evolva identified a potential use in pest control, in particular as an active ingredient against ticks and mosquitoes. Evolva collaborated with the US Centers for Disease Control and Prevention and the US Biomedical Advanced Research and Development Authority and received funds from them. EPA approval has taken around two years, which is longer than was initially expected but it has finally been granted.

## Pest control is a major new market

The advantage of using nootkatone in pest control is that it is a safe and familiar ingredient. Nootkatone is extracted from the bark of Alaskan Yellow Cedar trees and grapefruit skin and has a fresh scent. Obtaining nootkatone from nature is very expensive and not sustainable. Evolva can produce a 98% pure nature-identical nootkatone by combining its yeast fermentation process with a proprietary conversion technique. The pest control market is significantly larger than nootkatone's use in fragrance. Our assumption remains of CHF150m of peak sales for the product, with the peak achieved in 2026. We believe the use of nootkatone is likely to be beyond the US market: given the prevalence of vector-borne diseases in Asia, we expect the other markets to adopt nootkatone early could be those that follow the US approval decision and would not require separate registration.

## Valuation: Fair value of CHF0.41/share

We continue to value Evolva on a DCF basis with a 25-year model, assuming cash break-even in FY23, in line with management guidance. Our fair value remains unchanged at CHF0.41/share. As a reminder, nootkatone contributes c 50% of our fair value for Evolva, with most of this coming from its use in pest control.

Food & beverages

11 August 2020

Price **CHF0.307**

Market cap **CHF252m**

Net cash (CHFm) at 31 December 2019 39.9

Shares in issue 823m

Free float 100%

Code EVE

Primary exchange SIX Swiss Ex

Secondary exchange OTC US

### Share price performance



% 1m 3m 12m

Abs 6.6 41.1 70.9

Rel (local) 8.1 35.2 65.2

52-week high/low CHF0.307 CHF0.138

### Business description

Evolva is a Swiss biotech company focused on the research, development and commercialisation of ingredients based on nature. The company has leading businesses in Flavors and Fragrances, Health Ingredients and Health.

### Next events

H120 results 26 August 2020

FY20 results February 2021

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## Valuation

We detail our valuation in Exhibit 1. All our assumptions are unchanged. Our current forecasts assume the company remains cash positive until it breaks even on a cash basis in FY23 (we forecast net cash of CHF8m at end FY22). If the cash burn were to accelerate beyond our forecasts, the headroom of CHF8m is rather limited and the recent announcement regarding the [issuance of convertible notes](#) should help to bridge the gap at a reasonable cost.

EPA registration of Nootkashield (the brand name for Evolva's nootkatone) as an active ingredient may result in increased costs as Evolva invests in the development and registration of its own formulations. Evolva – and also any companies developing their own products using Nootkashield – will be required to submit a registration package to the EPA for review, with data regarding safety, efficacy and a characterisation of the product. Products are not expected to be commercially available until 2022. Any increased costs borne by Evolva may result in its cash burn accelerating beyond our forecasts, but any cash gap could be bridged via the convertible notes, as discussed above. In addition, we expect Nootkashield's applications to stretch beyond the US market. Vector-borne diseases are prevalent in many regions globally, and we expect early adopters of Nootkashield could be those markets that follow US protocols without requiring a separate registration and approval.

### Exhibit 1: Summary of DCF valuation

Product	Value (CHFm)	Value/share (CHF)	Notes
Stevia (royalty stream)	83.7	0.10	Launched; peak sales: \$600m; royalty stream: 5%
Resveratrol	21.9	0.03	Launched; peak sales: \$140m; margin: 30%
Nootkatone	164.2	0.20	Launched; peak sales: \$150m; margin: 40%
Valencene	13.9	0.02	Launched; peak sales: \$10m; margin: 40%
R&D partnerships	19.3	0.02	Assume revenue continues to fall
Capex	-2.5	0.00	Includes contribution to Cargill for commercialisation of EverSweet
Net cash	39.9	0.05	Reported net cash at end FY19
<b>Total</b>	<b>340.5</b>	<b>0.41</b>	<b>Using FY20 average number of shares throughout</b>

Source: Edison Investment Research. Note: WACC = 12.5%.

**Exhibit 2: Financial summary**

	CHF'000s	2017	2018	2019	2020e	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		6,817	8,933	11,543	10,671	18,836	29,614
Cost of Sales		(4,698)	(6,816)	(6,305)	(3,577)	(6,615)	(11,770)
Gross Profit		2,119	2,117	5,238	7,093	12,221	17,843
EBITDA		(37,629)	(23,350)	(12,333)	(12,104)	(6,985)	(1,653)
Operating Profit (before GW and except.)		(39,804)	(24,827)	(14,120)	(13,330)	(8,222)	(2,684)
Intangible Amortisation		(5,126)	(5,909)	(6,060)	(6,060)	(6,060)	(6,060)
Exceptionals		0	0	0	0	0	0
Operating Profit		(44,929)	(30,736)	(20,181)	(19,391)	(14,282)	(8,745)
Net Interest		(596)	(622)	(1,486)	160	96	53
Other financial income		(482)	40	0	0	0	0
Profit Before Tax (norm)		(40,882)	(25,409)	(15,606)	(13,171)	(8,125)	(2,631)
Profit Before Tax (FRS 3)		(46,007)	(31,318)	(21,667)	(19,231)	(14,186)	(8,692)
Tax		7,023	2,104	(25)	0	0	0
Profit After Tax (norm)		(33,881)	(23,305)	(15,632)	(13,171)	(8,125)	(2,631)
Profit After Tax (FRS 3)		(38,984)	(29,214)	(21,692)	(19,231)	(14,186)	(8,692)
Average Number of Shares Outstanding (m)		482.1	770.6	770.4	810.0	823.2	823.2
EPS - normalised (c)		(7.0)	(3.0)	(2.0)	(1.6)	(1.0)	(0.3)
EPS - FRS 3 (c)		(8.1)	(3.8)	(2.8)	(2.4)	(1.7)	(1.1)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		31.1	23.7	45.4	66.5	64.9	60.3
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
<b>BALANCE SHEET</b>							
Fixed Assets		132,125	145,825	143,333	137,824	129,569	120,968
Intangible Assets		124,487	138,838	133,939	127,878	121,818	115,757
Tangible Assets		5,208	4,769	7,211	6,186	5,157	4,343
Other fixed assets		2,430	2,218	2,184	3,760	2,594	868
Current Assets		107,697	67,192	48,745	33,813	28,960	31,226
Stocks		8,009	4,040	5,392	6,402	11,302	17,768
Debtors		1,831	1,941	1,480	1,387	2,449	3,850
Cash		97,185	60,380	39,920	24,070	13,256	7,654
Other current assets		673	830	1,954	1,954	1,954	1,954
Current Liabilities		(12,261)	(14,705)	(12,295)	(11,036)	(12,439)	(14,819)
Creditors		(1,933)	(743)	(2,912)	(1,652)	(3,055)	(5,436)
Short term borrowings		0	0	0	0	0	0
Finance lease obligations		(781)	(782)	(1,289)	(1,289)	(1,289)	(1,289)
Other current liabilities		(9,546)	(13,180)	(8,095)	(8,095)	(8,095)	(8,095)
Long Term Liabilities		(6,840)	(4,150)	(7,221)	(6,137)	(5,053)	(3,969)
Long term borrowings		0	0	0	0	0	0
Finance lease obligations		(2,400)	(2,394)	(4,840)	(3,756)	(2,673)	(1,589)
Other long term liabilities		(4,440)	(1,756)	(2,381)	(2,381)	(2,381)	(2,381)
Net Assets		220,721	194,162	172,562	154,464	141,037	133,405
<b>CASH FLOW</b>							
Operating Cash Flow		(35,224)	(23,247)	(13,631)	(14,672)	(9,618)	(4,354)
Net Interest		(379)	(360)	(583)	160	96	53
Capex		(582)	(364)	(193)	(201)	(209)	(217)
Acquisitions/disposals		0	0	0	0	0	0
Financing		86,457	(209)	164	0	0	0
Dividends		0	0	0	0	0	0
Other cash flow		(658)	(12,595)	(6,224)	(1,084)	(1,084)	(1,084)
Net Cash Flow		49,614	(36,775)	(20,467)	(15,797)	(10,814)	(5,601)
Opening net debt/(cash)		(47,516)	(97,184)	(60,381)	(39,867)	(24,070)	(13,256)
HP finance leases initiated		0	0	0	0	0	0
Other		54	(29)	(47)	0	0	0
Closing net debt/(cash)		(97,184)	(60,381)	(39,867)	(24,070)	(13,256)	(7,654)

Source: Company data, Edison Investment Research

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