Evolva

H120 results

Resilience in a challenging environment

Food & beverages

Evolva's H120 results demonstrate excellent progress in its transformation from an R&D-driven enterprise towards a commercial company with a product-based revenue model. It recently received US EPA registration for nootkatone, and H120 witnessed a record order intake. COVID-19 caused delays at its contract manufacturers and hence only part of these record orders could be realised in H1, though much of these should be shipped in H2. EBITDA was also adversely affected by lower sales in Flavours & Fragrances (F&F) due to the pandemic. The company is seeing early signs of recovery and reiterates its commitment to cash break-even by FY23.

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	11.6	(15.6)	(2.0)	0.0	N/A	N/A
12/20e	10.0	(15.5)	(1.9)	0.0	N/A	N/A
12/21e	17.3	(10.0)	(1.2)	0.0	N/A	N/A

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

Strong growth despite COVID-19 effects

Product-related revenue increased 27% to CHF3.8m during H120. As expected, the COVID-19 pandemic predominantly affected the F&F business with softened demand. In addition, contract manufacturers were unable to deliver orders worth c CHF2.4m, but management expects to be able to make up for these delays during H2. Moreover, Evolva plans to launch a new product – currently known as EVE-X157/Z4 – in the F&F and Health Ingredients space before the end of the year.

Increased sales guidance, higher cash burn

Evolva's FY20 guidance is now for product-related revenue to double over the prior year. This is above previous guidance, which was for product-related revenue growth to be consistent with last year (+59%). EBITDA guidance is slightly lower due to the extra costs associated with the pandemic, and new guidance is for cash burn to be above the 2019 level (previously expected to be in line). The commitment to achieve cash break-even by 2023 is reiterated. We increase our FY20 product sales forecasts, reduce our R&D revenue forecasts and reduce our EBITDA forecasts to reflect updated guidance. We also increase our cash outflow for FY20–22 in light of increasing inventory levels ahead of product launches, and now forecast the company to exhaust its cash reserves during FY22.

Valuation: Fair value of CHF0.38/share

We continue to value Evolva on a DCF basis with a 25-year model, assuming cash break-even in FY23. Our fair value reduces to CHF0.38/share (from CHF0.41/share previously) due to lower EBITDA and increased cash outflow in FY20–22, and adverse FX movements. The lower EBITDA is caused predominantly by higher costs as a result of COVID-19, which we expect will persist until FY22, and in FY20 also by lower F&F sales due to the pandemic, although overall product sales guidance has increased. As a reminder, nootkatone contributes c 50% of our fair value for Evolva, with most of this coming from its use in pest control.

28 August 2020

Price	**CHF0.25**
Market cap	**CHF208m**

Net cash (CHFm) at 30 June 2020	25.3
Shares in issue	822m
Free float	100%
Code	EVE
Primary exchange	SIX Swiss Ex
Secondary exchange	OTC US

Share price performance

%	1m	3m	12m
Abs	(6.3)	10.7	29.7
Rel (local)	(6.0)	5.1	24.0
52-week high/low		CHF0.31	CHF0.15

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 Flavours and Fragrances, Health Ingredients and Health Protection.

Next events

FY20 results	25 February 2021
AGM	8 April 2021

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H120 results

Total revenue was down 38% in the period, to CHF4.0m. Product-related revenue was up 27% to CHF3.8m and R&D revenue was down 94% to CHF0.2m, as expected, following the completion of the US Biomedical Advanced Research and Development Authority (BARDA) contract. Operating costs were down by 3% despite an extraordinary expense of CHF0.7m relating to an increased provision for an R&D collaboration with the US Defense Threat Reduction Agency (DTRA) dating back to 2008–11. Excluding the extraordinary expense, operating costs were down 9%, reflecting lower regulatory costs (as the Environmental Protection Agency (EPA) registration process was largely complete), further streamlining of the business, and tight operational expense management. The EBITDA loss for the period widened to CHF8.3m due to a number of factors: significantly lower R&D revenues, delays at contract manufacturers due to the pandemic and lower F&F sales also caused by the pandemic. Net cash at end H120 was CHF25.3m vs CHF39.9m at end FY19.

We increase our FY20 product sales forecasts and reduce our EBITDA forecasts to reflect updated guidance. Our R&D revenue forecasts are now lower and hence the fall in total revenue. We also increase our cash outflow for FY20–22 due to increasing inventory levels ahead of product launches, and now forecast the company to exhaust its cash reserves during FY22. We illustrate a summary of our forecast changes in Exhibit 1.

Exhibit 1: Forecast changes to key metrics FY20–22

CHFm	2020e		2021e		2022e	
	Old	New	Old	New	Old	New
Product revenue	7.6	9.7	16.7	17.1	28.1	27.1
R&D revenue	3.1	0.3	2.1	0.2	1.5	0.2
Total revenue	10.7	10.0	18.8	17.3	29.6	27.2
Gross profit	7.1	4.8	12.2	10.3	17.8	15.9
Operating profit	-19.4	-21.7	-14.3	-16.2	-8.7	-10.7
Net debt/(cash) at end of year	-24.1	-18.9	-13.3	-6.3	-7.7	0.5

Source: Edison Investment Research

Valuation

We detail our valuation in Exhibit 2. Our fair value decreases from CHF0.41/share to CHF0.38/share due to the reduction in EBITDA for FY20-22 and increased cash burn in the nearer term and FX movements. We have increased our FY20 product sales figures in line with guidance and have cut our R&D sales figures to better reflect the end of the US BARDA contract. We continue to exclude the new product – EVE-X157/Z4 – from our model as very little detail has been provided due to competitive reasons. We recognise it would provide some upside to our current forecasts. We continue to assume that cash and profit break-even for the company will occur in FY23, in line with management guidance. We now forecast the company to exhaust its cash reserves during FY22 and hence expect net debt of around CHF0.5m at end FY22 (versus our previous estimate of net cash of CHF7.7m by this period). We note the recent announcement regarding the issuance of convertible notes should help to finance the debt at a reasonable cost.

Exhibit 2: Summary of DCF valuation

Product	Value (CHFm)	Value/share (CHF)	Notes
Stevia (royalty stream)	80.6	0.10	Launched; peak sales: $600m; royalty stream: 5%
Resveratrol	21.4	0.03	Launched; peak sales: $140m; margin: 30%
Nootkatone	158.1	0.19	Launched; peak sales: $150m; margin: 40%
Valencene	13.4	0.02	Launched; peak sales: $10m; margin: 40%
R&D partnerships	1.9	0.00	Assume revenue continues to decline
Capex	(6.0)	(0.01)	Includes contribution to Cargill for commercialisation of EverSweet
Net cash	39.8	0.05	Reported net cash at end FY19
Total	**309.3**	**0.38**	**Based on last reported number of shares (822m)**

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

Exhibit 3: Financial summary

CHF'000s	2017	2018	2019	2020e	2021e	2022e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	6,817	8,933	11,596	9,972	17,306	27,222
Cost of Sales	(4,698)	(6,816)	(6,305)	(5,204)	(6,983)	(11,336)
Gross Profit	2,119	2,117	5,292	4,768	10,323	15,887
EBITDA	(37,629)	(23,350)	(12,280)	(14,430)	(8,883)	(3,610)
Operating Profit (before GW and except.)	(39,804)	(24,827)	(14,188)	(15,656)	(14,067)	(15,656)
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)	(20,128)	(21,716)	(16,180)	(10,702)
Net Interest	(596)	(622)	(1,486)	160	89	39
Other financial income	(482)	40	0	0	0	0
Profit Before Tax (norm)	(40,882)	(25,409)	(15,553)	(15,496)	(10,030)	(4,602)
Profit Before Tax (FRS 3)	(46,007)	(31,318)	(21,614)	(21,556)	(16,091)	(10,662)
Tax	7,023	2,104	(25)	0	0	0
Profit After Tax (norm)	(33,881)	(23,305)	(15,578)	(15,496)	(10,030)	(4,602)
Profit After Tax (FRS 3)	(38,984)	(29,214)	(21,639)	(21,556)	(16,091)	(10,662)
Average Number of Shares Outstanding (m)	482.1	770.6	770.4	809.3	770.4	809.3
EPS - normalised (c)	(7.0)	(3.0)	(2.0)	(1.9)	(1.2)	(0.6)
EPS - FRS 3 (c)	(8.1)	(3.8)	(2.8)	(2.7)	(2.0)	(1.3)
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	31.1	23.7	45.6	47.8	59.6	58.4
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	132,125	145,825	143,333	141,377	135,865	130,567
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	7,314	8,890	10,467
Current Assets	107,697	67,192	48,745	28,792	19,137	16,381
Stocks	8,009	4,040	5,392	6,482	8,653	10,889
Debtors	1,831	1,941	1,480	1,496	2,250	3,539
Cash	97,185	60,380	39,920	18,861	6,281	0
Other current assets	673	830	1,954	1,954	1,954	1,954
Current Liabilities	(12,261)	(14,705)	(12,295)	(11,787)	(12,609)	(14,619)
Creditors	(1,933)	(743)	(2,912)	(2,403)	(3,225)	(5,235)
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)	(4,465)
Long term borrowings	0	0	0	0	0	(496)
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	152,245	137,341	127,864
CASH FLOW						
Operating Cash Flow	(35,224)	(23,247)	(13,577)	(16,435)	(11,377)	(5,515)
Net Interest	(379)	(360)	(583)	160	89	39
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)	(4,584)	(1,084)	(1,084)
Net Cash Flow	49,614	(36,775)	(20,413)	(21,059)	(12,580)	(6,777)
Opening net debt/(cash)	(47,516)	(97,184)	(60,381)	(39,920)	(18,861)	(6,281)
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)	(39,920)	(18,861)	(6,281)	496

Source: Edison Investment Research, company data

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