

Evolva

FY20 update

Manufacturing difficulties

Evolva has updated its outlook in light of the effects of the COVID-19 pandemic. FY20 guidance is now for product-related revenue growth to be consistent with last year (+59%). As a reminder, this was the guidance at the start of the year, and was upgraded with the H1 results in August, when management expected product-related revenue to double in FY20. EBITDA guidance is now lowered to a loss of CHF16–17m, having been reduced slightly in August (to 'above prior-year level'). We adjust our forecasts accordingly and our fair value remains unchanged at CHF0.38/share.

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	9.8	(16.8)	(2.1)	0.0	N/A	N/A
12/21e	16.8	(11.8)	(1.4)	0.0	N/A	N/A

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

F&F adversely affected; Health Ingredients resilient

The pandemic has adversely affected demand for ingredients used in beverages and fine fragrances. Despite the early positive trend during the summer – which led management to believe there would be a material bounce back – Flavours and Fragrances (F&F) sales have stagnated as Evolva's customers have adjusted to lower consumer demand. Conversely, the demand for Health Ingredients continues to grow, with record order levels; the pandemic has increased consumer focus on health and wellbeing, thus driving demand for resveratrol; and manufacturing of Evolva's new ingredient, EVE-X157/Z4, is being scaled up. On the Health Protection side, Evolva has continued to support its customers in driving activities towards the launch of the first consumer products containing nootkatone for pest control.

Contract manufacturers causing supply delays

As discussed above, demand for resveratrol continues to grow significantly, but the supply has been delayed by problems at key contract manufacturers, and the backlog has continued to grow since the end of H1. Evolva has appointed Gerhard Lobmaier as COO effective 1 January 2021, as it sees strengthening its manufacturing and supply chain as key steps in its path to reach cash break-even by FY23. Mr Lobmaier will be responsible for the manufacturing and supply chain functions and support the optimisation of the contract manufacturer network.

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, in line with management guidance. We note guidance has changed twice over the last few months, but F&F demand has been significantly affected by lockdowns and temporary restrictions in Evolva's main markets. Our fair value remains CHF0.38/share, as we believe the impact on performance is short term. 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

10 November 2020

Price **CHF0.21**
Market cap **CHF175m**

Net cash (CHFm) at 30 June 2020 25.3
Shares in issue 822m
Free float 100%
Code EVE

Primary exchange SIX Swiss Exchange
Secondary exchange OTC US

Share price performance



%	1m	3m	12m
Abs	(9.7)	(16.2)	30.1
Rel (local)	(9.7)	(17.9)	29.7
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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Valuation

We detail our valuation in Exhibit 1. The reduction in guidance should only affect the FY20 performance, as F&F demand in beverages and fine fragrances is significantly disrupted by the effects of lockdowns and temporary restrictions (eg reduced trading hours) in Evolva's main markets. We have trimmed our FY21 figures to reflect the risk that the lockdowns extend into FY21. The increased EBITDA loss and increased cash burn in the nearer term is therefore likely to be temporary and has a very minor impact on our DCF valuation. Our fair value therefore remains unchanged at CHF0.38/share. We continue to exclude the new product – EVE-X157/Z4 – from our model as very little detail has been provided due to commercial reasons. We recognise that it could provide some upside to our current forecasts. We assume that cash and profit break-even for the company will occur in FY23, in line with management guidance. We forecast the company to exhaust its cash reserves during FY22 and hence expect net debt of around CHF4.9m at end FY22 (vs our prior estimate of end FY22 net debt of CHF0.5m). We note the [announcement](#) in June regarding the issuance of convertible notes should help to finance the debt at a reasonable cost.

Exhibit 1: Summary of DCF valuation

Product	Value (CHFm)	Value/share (CHF)	Notes
Stevia (royalty stream)	80.5	0.10	Launched; peak sales: \$600m; royalty stream: 5%
Resveratrol	21.2	0.03	Launched; peak sales: \$140m; margin: 30%
Nootkatone	158.0	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 fall
Capex	(6.0)	(0.01)	Includes contribution to Cargill for commercialisation of EverSweet
Net cash	39.9	0.05	Reported net cash at end FY19
Total	308.9	0.38	Based on last reported number of shares (822m)

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
PROFIT & LOSS							
Revenue		6,817	8,933	11,596	9,782	16,753	27,210
Cost of Sales		(4,698)	(6,816)	(6,305)	(5,182)	(6,980)	(11,331)
Gross Profit		2,119	2,117	5,292	4,600	9,773	15,879
EBITDA		(37,629)	(23,350)	(12,280)	(15,766)	(10,659)	(4,905)
Operating Profit (before GW and except.)		(39,804)	(24,827)	(14,067)	(17,386)	(11,351)	(16,992)
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)	(23,052)	(17,956)	(11,996)
Net Interest		(596)	(622)	(1,486)	160	85	28
Other financial income		(482)	40	0	0	0	0
Profit Before Tax (norm)		(40,882)	(25,409)	(15,553)	(16,832)	(11,811)	(5,908)
Profit Before Tax (FRS 3)		(46,007)	(31,318)	(21,614)	(22,892)	(17,871)	(11,968)
Tax		7,023	2,104	(25)	0	0	0
Profit After Tax (norm)		(33,881)	(23,305)	(15,578)	(16,832)	(11,811)	(5,908)
Profit After Tax (FRS 3)		(38,984)	(29,214)	(21,639)	(22,892)	(17,871)	(11,968)
Average Number of Shares Outstanding (m)		482.1	770.6	770.4	809.3	821.8	809.3
EPS - normalised (c)		(7.0)	(3.0)	(2.0)	(2.1)	(1.4)	(0.7)
EPS - FRS 3 (c)		(8.1)	(3.8)	(2.8)	(2.8)	(2.2)	(1.5)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		31.1	23.7	45.6	47.0	58.3	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	141,324	135,812	130,514
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	7,260	8,837	10,414
Current Assets		107,697	67,192	48,745	27,446	16,019	16,375
Stocks		8,009	4,040	5,392	6,358	8,377	10,884
Debtors		1,831	1,941	1,480	1,467	2,178	3,537
Cash		97,185	60,380	39,920	17,667	3,511	0
Other current assets		673	830	1,954	1,954	1,954	1,954
Current Liabilities		(12,261)	(14,705)	(12,295)	(11,777)	(12,607)	(14,616)
Creditors		(1,933)	(743)	(2,912)	(2,393)	(3,223)	(5,233)
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)	(8,883)
Long term borrowings		0	0	0	0	0	(4,914)
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	150,856	134,171	123,389
CASH FLOW							
Operating Cash Flow		(35,224)	(23,247)	(13,577)	(17,629)	(12,948)	(7,153)
Net Interest		(379)	(360)	(583)	160	85	28
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)	(22,253)	(14,155)	(8,425)
Opening net debt/(cash)		(47,516)	(97,184)	(60,381)	(39,920)	(17,667)	(3,511)
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)	(17,667)	(3,511)	4,914

Source: Edison Investment Research, company data

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