Evolva

FY20 results

Addressing the bottlenecks

Food & beverages

Evolva's order intake in FY20 was over CHF10m for the first time, with market share gains across business segments and continued strong momentum in Health Ingredients. Due to an order backlog of CHF3.6m, however, reported sales were CHF7.5m vs our forecast of CHF9.8m. There were delays in manufacturing owing to ongoing issues with Evolva's contract manufacturers (CMOs) and, to compound this, demand in Flavours & Fragrances (F&F) continues to be subdued. FY21 reported EBITDA and operating cash flow are now expected to be in line with FY20 levels, with current guidance assuming there will be pandemic-related effects on the business for most of the year. Importantly, however, the guidance to break-even at the cash level by FY23 remains unchanged.

Year end	Revenue (CHFm)	PBT* (CHFm)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/19	11.6	(15.6)	(2.0)	0.0	N/A	N/A
12/20	7.5	(23.4)	(2.9)	0.0	N/A	N/A
12/21e	14.3	(17.0)	(2.1)	0.0	N/A	N/A
12/22e	27.4	(4.5)	(0.5)	0.0	N/A	N/A

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

CMO bottlenecks continue to cause delays

While the planned updates of the CMO network have been completed, scaling up the manufacturing of resveratrol at new CMOs was delayed by the pandemic, with procurement of new equipment and staff training particular hurdles. This led to an order backlog of CHF3.6m. The bottlenecks are being addressed and are unlikely to recur on the same scale for other products, as many problems were caused specifically by the pandemic, but extraordinary costs of CHF6.1m are expected in FY21 as further investment is required to ease the bottlenecks.

Further funding required, CFO leaving

With CHF19.7m in gross cash at end FY20 and CHF14m of further open financing lines (through a convertible loan agreement), it is highly likely that Evolva will need further financing as it scales up some products and builds inventories to support its launches. Management is evaluating a range of options, with a view to minimising the dilution to existing stakeholders. The sudden departure of André Pennartz for personal reasons inevitably comes as a surprise, but CEO Oliver Walker is also taking on the CFO role ad interim, already having experience of the dual role.

Valuation: Fair value of CHF0.32/share

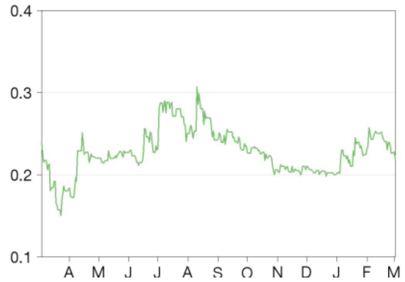
We continue to value Evolva on a DCF basis with a 25-year model, assuming cash break-even in FY23, in line with management guidance. The pandemic has affected Evolva's business, with F&F demand remaining subdued and also causing CMO bottlenecks. Our fair value decreases to CHF0.32/share (from CHF0.38 previously) as we reduce our near-term EBTIDA and operating cash flow assumptions in line with new guidance. As a reminder, nootkatone contributes c 50% of our fair value for Evolva, with most of this coming from its use in pest control.

3 March 2021

Price	**CHF0.219**
Market cap	**CHF180m**

Gross cash (CHFm) at 31 Dec 2020	19.67
Shares in issue	821.8m
Free float	100%
Code	EVE
Primary exchange	SIX Swiss Exchange
Secondary exchange	OTC US

Share price performance



%	1m	3m	12m
Abs	(6.8)	4.3	(8.2)
Rel (local)	(6.9)	0.6	(15.5)
52-week high/low		CHF0.307	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

AGM	8 April 2021
H121 results	26 August 2021

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Edison profile page

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FY20 results and forecasts

Evolva reported sales of CHF7.5m, below our forecast of CHF9.8m. As discussed above, this was caused by a CHF3.6m order backlog, hence order intake was above our forecast. Reported EBITDA loss was CHF16.7m vs our forecast of CHF15.8, although in underlying terms (excluding CHF2.6m of extraordinary costs related to the manufacturing delays and bottlenecks), the EBITDA loss was CHF14.1m.

Turning to guidance, for FY21 reported EBITDA and operating cash flow are expected to be around 2020 levels owing to the delays and costs in scaling up manufacturing. We therefore reduce our estimates at both the revenue and earnings levels to reflect the new guidance, as we previously assumed a c CHF5m improvement in both figures.

Our forecasts implicitly assume any further financing needs are met through the issuance of debt (or convertible notes), as we do not forecast any equity dilution at this stage.

Valuation

We detail our valuation in Exhibit 1. As discussed above, we trim our sales and EBITDA forecasts in the F&F segment owing to subdued demand caused by the ongoing pandemic. We also reduce our operating cash flow forecasts as we expect greater investment by Evolva in its CMO network and also inventory build to support its new launches. Our fair value therefore decreases to CHF0.32/share (from CHF0.38/share previously), as the reductions in our forecasts are partly offset by rolling forward our DCF by a year to now commence in FY21. We continue to exclude the new product – L-arabinose (previously known as EVE-X157/Z4) – from our model: while we now know what the product is (a reducing sugar) and its fields of application (it is used as a flavour ingredient, and has potential as a prebiotic and as an ingredient to support healthy blood sugar), very little detail has been provided at this stage regarding the size of the addressable market. We recognise that it could provide some upside to our current forecasts: management currently expects commercial-scale recurring manufacturing to occur from FY22 for F&F applications and from FY23 in the Health Ingredients space.

We assume that cash and profit break-even for Evolva will occur in FY23, in line with management guidance. Given the increase in cash burn at the operating cash flow level vs our previous estimates, we now forecast that the company will exhaust its cash reserves during FY21. We hence expect overall net debt of CHF13.6m at end FY21, including the balance of convertible loan notes issued during FY20. As a reminder, in June and December 2020, Evolva entered into an agreement with Nice & Green for the issue and subscription of up to CHF24m of convertible loan notes. During 2020, CHF10m of convertible loan notes were issued, and CHF6m of these have been converted to equity through the issue of 27.9m shares. The remaining CHF14m of the facility is still available. Our current forecasts do not imply any further raises from the convertible facility, but instead assume the funding requirements are met through debt issuance. We now assume overall cash burn to be c CHF23m in FY21 (vs total cash burn of c CHF20m in FY19 and c CHF30m in FY20), before receding in FY22 as the EBITDA loss reduces significantly.

Exhibit 1: Summary of DCF valuation

Product	Value (CHFm)	Value/share (CHF)	Notes
Stevia (royalty stream)	88.9	0.11	Launched; peak sales: $600m; royalty stream: 5%
Resveratrol	24.9	0.03	Launched; peak sales: $140m; margin: 30%
Nootkatone	177.3	0.22	Launched; peak sales: $150m; margin: 40%
Valencene	15.0	0.02	Launched; peak sales: $10m; margin: 40%
R&D partnerships	6.4	0.01	Assume revenue continues to fall
Capex	-21.3	-0.03	Includes contribution to Cargill for commercialisation of EverSweet
Net cash	9.7	0.01	Reported net cash at end FY20
Funding gap requirement	-37.2	-0.05	
Total	**263.6**	**0.32**	**Based on last reported number of shares (822m)**

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

Exhibit 2: Financial summary

CHF'000s	2018	2019	2020	2021e	2022e	2023e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	8,933	11,596	7,541	14,306	27,449	53,111
Cost of Sales	(6,816)	(6,305)	(9,783)	(14,348)	(15,065)	(27,439)
Gross Profit	2,117	5,292	(2,242)	(42)	12,384	25,672
EBITDA	(23,350)	(12,280)	(16,733)	(15,134)	(2,538)	10,878
Operating Profit (before GW and except.)	(24,827)	(14,067)	(18,397)	(17,131)	(4,364)	(16,517)
Intangible Amortisation	(5,909)	(6,060)	(6,508)	(6,508)	(6,508)	(6,508)
Exceptionals	0	0	0	0	0	0
Operating Profit	(30,736)	(20,128)	(24,905)	(23,024)	(10,406)	3,018
Net Interest	(622)	(1,486)	(4,978)	(521)	(614)	(670)
Other financial income	40	0	0	0	0	0
Profit Before Tax (norm)	(25,409)	(15,553)	(23,375)	(17,038)	(4,513)	8,855
Profit Before Tax (FRS 3)	(31,318)	(21,614)	(29,882)	(23,546)	(11,020)	2,348
Tax	2,104	(25)	18	0	0	0
Profit After Tax (norm)	(23,305)	(15,578)	(23,357)	(17,038)	(4,513)	8,855
Profit After Tax (FRS 3)	(29,214)	(21,639)	(29,864)	(23,546)	(11,020)	2,348
Average Number of Shares Outstanding (m)	770.6	770.4	809.3	821.8	821.8	821.8
EPS - normalised (c)	(3.0)	(2.0)	(2.9)	(2.1)	(0.5)	1.1
EPS - FRS 3 (c)	(3.8)	(2.8)	(3.7)	(2.9)	(1.3)	0.3
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	23.7	45.6	-29.7	-0.3	45.1	48.3
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
BALANCE SHEET						
Fixed Assets	145,825	143,333	133,316	126,564	120,019	113,533
Intangible Assets	138,838	133,939	123,894	117,387	110,879	104,372
Tangible Assets	4,769	7,211	6,914	6,803	6,765	6,787
Other fixed assets	2,218	2,184	2,508	2,375	2,375	2,375
Current Assets	67,192	48,745	33,577	21,033	30,433	38,550
Stocks	4,040	5,392	9,125	15,737	23,332	29,211
Debtors	1,941	1,480	2,347	2,861	4,666	6,904
Cash	60,380	39,920	19,669	0	0	0
Other current assets	830	1,954	2,435	2,435	2,435	2,435
Current Liabilities	(14,705)	(12,295)	(15,139)	(16,132)	(16,288)	(18,980)
Creditors	(743)	(2,912)	(2,128)	(3,122)	(3,278)	(5,970)
Short term borrowings	0	0	(4,000)	(4,000)	(4,000)	(4,000)
Finance lease obligations	(782)	(1,289)	(1,059)	(1,059)	(1,059)	(1,059)
Other current liabilities	(13,180)	(8,095)	(7,952)	(7,952)	(7,952)	(7,952)
Long Term Liabilities	(4,150)	(7,221)	(6,662)	(9,065)	(21,930)	(17,668)
Long term borrowings	0	0	0	(3,581)	(17,492)	(14,276)
Finance lease obligations	(2,394)	(4,840)	(4,179)	(3,133)	(2,087)	(1,042)
Other long-term liabilities	(1,756)	(2,381)	(2,484)	(2,351)	(2,351)	(2,351)
Net Assets	194,162	172,562	145,092	122,400	112,234	115,436
CASH FLOW						
Operating Cash Flow	(23,247)	(13,577)	(22,317)	(20,412)	(10,928)	6,307
Net Interest	(360)	(583)	(1,046)	(521)	(614)	(670)
Capex	(364)	(193)	(1,223)	(1,272)	(1,322)	(1,375)
Acquisitions/disposals	0	0	0	0	0	0
Financing	(209)	164	0	0	0	0
Dividends	0	0	0	0	0	0
Other cash flow	(12,595)	(6,224)	(5,521)	(1,046)	(1,046)	(1,046)
Net Cash Flow	(36,775)	(20,413)	(30,106)	(23,251)	(13,910)	3,216
Opening net debt/(cash)	(97,184)	(60,381)	(39,920)	(9,670)	13,581	27,491
HP finance leases initiated	0	0	0	0	0	0
Other	(29)	(47)	(144)	0	0	(0)
Closing net debt/(cash)	(60,381)	(39,920)	(9,670)	13,581	27,491	24,275

Source: Edison Investment Research, company data

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