

Evolve

Consumer
28 October 2021

Progressing towards cash break-even

Evolve has undergone a transformation from an R&D-driven enterprise to a commercial company with a product-based revenue model. Its H121 results demonstrated that Evolve is progressing towards its goal of being cash break-even by FY23. H1 revenue was up 60% y-o-y to CHF6.4m, and all segments witnessed an increase in sales. The contract manufacturer network continues to expand and manufacturing scale-up and optimisation is yielding successful results. Evolve now expects to see positive gross profits from Q421.

Optimising costs

As Evolve nears profit and cash break-even it has focused on optimising its manufacturing capabilities and ensuring they are both stable and scalable. This should ensure that gross profits are positive by Q421, with a view to reaching cash break-even by FY23, and should stand the business in good stead for future growth.

Accelerating growth

Evolve witnessed growth across all segments during H121: Flavors & Fragrances products gained momentum during Q2, following some quieter quarters as a result of the pandemic; Health Ingredients saw ongoing strong demand across its segments; and Health Protection is focusing on end-user applications for the use of nootkatone in pest control. Resveratrol's growth has accelerated as it has benefited from a pandemic-related spike in pet adoptions. Commercial interest has also been boosted by clinical studies initiated by Evolve demonstrating the product's efficacy.

Valuation: Fair value of CHF0.30/share

We continue to value Evolve on a discounted cash flow basis with a 25-year model, assuming cash break-even in FY23, in line with management guidance. As a reminder, nootkatone contributes c 50% of our fair value for Evolve, with most of this coming from its use in pest control. We expect overall net debt of CHF5.1m at end FY21, including the balance of convertible loan notes issued since FY21. As a reminder, in June and December 2020 and May 2021, Evolve entered into an agreement with Nice & Green for the issue and subscription of up to CHF44m of convertible loan notes. As of the end of H121, Evolve has drawn tranches totalling CHF21.5m. Our current forecasts do not imply any further issuances of shares to redeem the convertible loan notes, though we note the capital increase in September 21 whereby Evolve issued 40m shares.

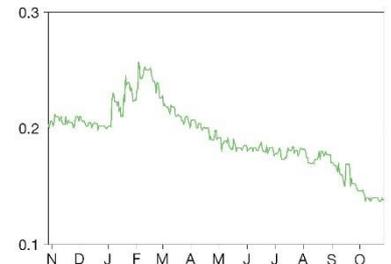
Edison estimates

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	14.2	(18.6)	(2.1)	0.0	N/A	N/A
12/22e	27.5	(3.8)	(0.4)	0.0	N/A	N/A

Source: Edison Investment Research

Price CHF0.14
Market cap CHF135m

Share price graph



Share details

Code EVE
 Shares in issue 967m
 Net cash (CHFm) at 30 June 2021 13.1

Business description

Evolve 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 Protection.

Bull

- Transformation towards commercial company continues apace, with R&D revenues declining and product-based revenues improving significantly.
- Nootkatone has the potential for a very large market when used in pest control, both in the US and in Asia and other markets.
- Flavours & Fragrances and Health Ingredients continue to be in the sweet spot of consumer demand.

Bear

- The company is still burning through cash and cash break-even is not expected until FY23.
- Using contract manufacturers is in line with Evolve's asset-light strategy but may result in lower margins and potential issues in terms of quality and continuity of supply.
- It takes a long time to bring new products to market given the complexities in fermentation and in scaling up the process.

Analysts

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