Evolva Holding

On track

H116 results

Food & beverages

H116 results confirmed Evolva is on track: following the stevia delay announced in March, the company has identified bottlenecks and is making good progress towards addressing them. As expected, production constraints with resveratrol have been resolved and nootkatone remains a strong proposition as an insect repellent. Our updated fair value of CHF1.10 per share (previously CHF1.14) reflects a slight move in FX rates and a slight increase in FY16 revenue forecasts, and represents 67% upside from the current share price.

Year end	Revenue (CHFm)	PBT* (CHFm)	EPS* (CHF)	DPS (CHF)	P/E (x)	Yield (%)
12/15	13.4	(32.1)	(8.0)	0.0	N/A	N/A
12/16e	13.1	(34.3)	(8.6)	0.0	N/A	N/A
12/17e	19.4	(32.4)	(8.1)	0.0	N/A	N/A
12/18e	29.4	(28.0)	(7.0)	0.0	N/A	N/A

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

Stevia progress encouraging

The news of the stevia delay in March was disappointing, but newsflow over the past few months has been encouraging: a European patent has been granted on a significant aspect of production, the FDA has issued a no objection letter, and with the H1 results, we have learned that in the four months since the delay was announced, the bottlenecks have been identified and the company is half way to addressing all the technical issues. We assume stevia is launched in mid-2018, and we believe this may now be too conservative given the speed with which the issues are being addressed, but we are leaving our assumptions unchanged for now as we await another update later this year.

Focus products all performing well

With the announcement of the stevia delay, management also chose to slightly shift the alignment of the company, identifying three focus products (stevia, nootkatone/valencene and resveratrol) and increasing the resource behind them. With the three products all progressing well, the decision seems sound. While the focus has shifted away from smaller products such as saffron and sandalwood, which are likely to progress more slowly, it is nevertheless encouraging that partnering negotiations are still taking place for these products.

Valuation: Fair value of CHF1.10/share

Our new fair value is CHF1.10 (previously CHF1.14). We have slightly increased our FY16 revenue forecast, in line with management guidance for flat revenues, and tweaked our assumptions for santalol, saffron and nootkatone. This results in a cut to 2018 revenues, due to phasing of the ramp up of the various products. Evolva is well capitalised with a cash position of CHF66.7m at June 2016. We forecast the company will have enough cash through to the end of FY17. However, if the option to enter into a JV with Cargill is exercised in 2017 and the previously issued capex guidance of c CHF30m is still valid, Evolva will need to raise more cash by 2018.

1 September 2016

Price	**CHF0.64**
Market cap	**CHF255m**

Net cash (CHFm) at 30 June 2016	66.7
Shares in issue	397.9m
Free float	76%
Code	EVE
Primary exchange	SIX Swiss Ex
Secondary exchange	OTC US

Share price performance

%	1m	3m	12m
Abs	(14.7)	(9.9)	(54.4)
Rel (local)	(15.4)	(9.7)	(51.0)
52-week high/low		CHF1.45	CHF0.58

Business description

Evolva is a Swiss high-tech fermentation company. It has a proprietary yeast technology platform, which it uses to create and manufacture high-value speciality molecules for nutritional and consumer products.

Next events

FY 16 results	March 2017

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Edison profile page

Evolva Holding is a research client of Edison Investment Research Limited

Valuation: DCF-based fair value of CHF 1.10/share

We value Evolva on a 25-year DCF basis. Our fair value is CHF1.10 (previously CHF1.14, as the USD/CHF rate has moved slightly), which offers c 70% potential upside from the current share price. We have slightly increased our FY16 revenue forecasts, in line with management guidance for flat revenues for the year, and we note that the recent positive newsflow is supportive of the investment case (see our recent note). We assume all product cash flows stop after 25 years and start to fade beyond 15 years; we also assume a WACC of 12.5% given we deem Evolva to be higher-than-average risk in relation to the consumer space. We illustrate a summary of our DCF valuation in Exhibit 1.

Stevia

We do not expect any major catalysts in the short term, although clearly the recent stevia news is helpful and positive. We believe Evolva will continue to work on its current product suite and will seek collaborations with new partners, as per management guidance. Evolva's prospects are mostly tied to the success of its stevia sweetener, EverSweet, although it is not fully dependent on it. As a reminder, EverSweet is a mixture of Reb D and Reb M, which with Evolva's fermentation process can obtained reliably and in large quantities, whereas in nature these occur at far lower concentrations than the more traditional stevia sweetener, Reb A. Stevia accounts for c 40% of our valuation (after adjusting for tax and capex).

Compared to existing stevia formulations, the taste of EverSweet continues to be a highly attractive proposition in our view, as Evolva's product lacks the trademark bitter aftertaste that hinders the use of traditional stevia (Reb A) at higher concentrations. However, the delay to the launch does increase the risk of a competing product being launched in the interim, although we are not aware of any imminent. The company has never issued revenue guidance on stevia, other than stating it believes the addressable market is $4bn. With the H1 results, management noted that its own (unpublished) projections regarding stevia revenue have been reduced by 10-20% on the grounds that the delay has allowed alternative technologies (such as taste modulators) to gain some traction and hence erode the overall potential of stevia. We believe this is already accounted for in our forecasts as we assume EverSweet can only reach a peak market share of 15% of the addressable $4bn market, or $600m peak sales. We also note we forecast EverSweet is launched mid-2018, but as discussed above, management comments with the H116 results suggest the bottlenecks could be addressed more quickly than we expect.

Nootkatone

We note that although stevia accounts for a significant proportion of our valuation, Evolva also has other products. Nootkatone, which is being developed in collaboration with the US CDC (Center for Disease Control), has gained momentum and is now often mentioned as having potential for fighting off the Zika virus. It could also be effective against mosquitoes that transmit chikungunya, dengue and West Nile viruses, as well as repelling and killing the yellow fever mosquito and the black-legged tick, which transmits Lyme disease. We have increased our assumption for peak sales from $100m to $150m, given management's updated guidance of ">$100m" and the positive momentum behind its use as a pesticide.

Other products

We have reduced our saffron and santalol peak sales assumptions to reflect the reduced emphasis on them, as management has shifted the focus towards its three main products, namely stevia, nootkatone and resveratrol.

Exhibit 1: Summary of DCF valuation

Product	Value (CHFm)	Value per share (CHF)	Notes
Stevia royalties	285.6	0.72	Launch date: 2018; peak sales: $600m; likelihood of success 80%; operating margin: 40%; profit share: 45%.
Saffron royalties	10.8	0.03	Launch date: 2018; peak sales: $50m; likelihood of success 60%; royalty: 10%.
Resveratrol	95.3	0.24	Launched; peak sales: $200m; likelihood of success 100%; margin: 40%.
Vanilla royalties	35.7	0.09	Launched; peak sales: $100m; likelihood of success 100%; royalty: 5%.
Nootkatone	105.6	0.27	Launched; peak sales: $150m; likelihood of success 75%*; margin: 40%.
Valencene	26.3	0.07	Launched; peak sales: $10m; likelihood of success 100%; margin: 40%.
Santalol	11.7	0.03	Launch date: 2018; peak sales: $10m; likelihood of success 60%; margin: 40%.
Legacy products	33.5	0.08	EV-077 for diabetic nephropathy, EV-035 antibiotic indications
L'Oreal/Takasago revenues	119.7	0.30	Launch date: 2019-21; number of products: 5; peak sales: $150m per product; likelihood of success: 50%; royalty: 8%.
Other alliance royalties	32.6	0.08	Royalties from alliances with Ajinomoto, BASF and Roquette; launch date: 2016-18; number of products: 3; peak sales: $150m per product; likelihood of success: 60%; royalty: 2%.
Other revenues	19.8	0.05	Only includes revenues from existing collaborations and grants.
R&D and admin	-267.1	-0.67	
Tax	-121.3	-0.30	
Capex	-33.0	-0.08	Includes investment of $30m for commercialisation of stevia with Cargill.
Net cash	83.2	0.21	Net cash at FY15
Total	438.4	1.10	

Source: Edison Investment Research. Note WACC = 12.5%. *There is no developmental risk associated with Nootkatone, but we have applied a risk adjustment due to uncertainty about the use of the product as an insect repellent.

H116 results

H116 results were largely in line with our forecasts and company guidance. Sales were below our forecasts, but R&D and SG&A costs were also both below forecasts and hence the operating loss was in line. Greater than expected tax income resulted in the net loss being better than our forecast. We have broadly maintained our underlying forecasts as H116 results yielded no surprises. We have increased our FY16 revenue forecasts slightly, in line with management guidance that revenues will be broadly flat for the year. In addition we have updated our forecasts for FX, which has moved only slightly since we last published.

Evolva is well funded following the CHF57m capital raising in September 2015. We forecast it will have enough cash through to the end of FY17. However, if the option to enter into a JV with Cargill is exercised in 2017 or early 2018 and the previously issued capex guidance of c CHF30m is still valid, our forecasts indicate that Evolva will need to raise more cash by 2018, so further rounds of capital raising remain a potential dilution risk. The guidance issued at the time of the last capital raising was that capital expenditure of c CHF30m was required to convert and retrofit the existing Cargill fermentation facility in Blair, Nebraska. With the FY15 results, management confirmed that a contract-manufacturing route might be considered nearer the launch, but this would significantly reduce margins, and hence conversion of the facility in Nebraska remains the more likely option. We therefore believe a further round of capital raising is likely nearer the time of the EverSweet launch in 2018.

Exhibit 2: Financial summary

CHF'000s	2014	2015	2016e	2017e	2018e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	10,744	13,364	13,055	19,403	29,351
Cost of Sales	0	0	(1,322)	(4,229)	(8,926)
Gross Profit	10,744	13,364	11,733	15,174	20,425
EBITDA	(19,405)	(30,305)	(33,436)	(31,346)	(27,351)
Operating Profit (before GW and except.)	(20,872)	(31,947)	(34,973)	(32,099)	(34,616)
Intangible Amortisation	(2,284)	(3,779)	(3,779)	(3,779)	(3,779)
Exceptionals	0	0	0	0	0
Operating Profit	(23,156)	(35,726)	(38,395)	(36,412)	(32,519)
Net Interest	(357)	(129)	333	208	82
Other financial income	57	0	0	0	650
Profit Before Tax (norm)	(21,172)	(32,076)	(34,283)	(32,425)	(28,007)
Profit Before Tax (FRS 3)	(23,456)	(35,855)	(38,063)	(36,204)	(31,786)
Tax	1,613	4,067	0	0	0
Profit After Tax (norm)	(19,069)	(28,113)	(34,283)	(32,425)	(28,007)
Profit After Tax (FRS 3)	(21,843)	(31,788)	(38,063)	(36,204)	(31,786)
Average Number of Shares Outstanding (m)	291.9	353.0	397.9	397.9	397.9
EPS - normalised (c)	(6.4)	(8.0)	(8.6)	(8.1)	(7.0)
EPS - FRS 3 (c)	(7.3)	(9.0)	(9.6)	(9.1)	(8.0)
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)	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
BALANCE SHEET					
Fixed Assets	149,742	143,457	140,437	142,387	149,317
Intangible Assets	136,111	131,940	128,161	124,381	120,602
Tangible Assets	10,484	8,431	9,190	9,920	10,629
Other fixed assets	3,147	3,086	3,086	8,086	18,086
Current Assets	62,870	88,780	56,842	21,536	8,309
Stocks	313	2,217	1,449	2,317	2,934
Debtors	1,510	2,785	2,861	3,190	4,825
Cash	60,713	83,228	51,981	15,478	0
Other current assets	334	550	550	550	550
Current Liabilities	(13,460)	(7,385)	(7,700)	(7,759)	(30,460)
Creditors	(2,408)	(1,182)	(1,497)	(1,557)	(1,596)
Short term borrowings	(3,522)	0	0	0	(22,662)
Finance lease obligations	(354)	(969)	(969)	(969)	(969)
Other current liabilities	(7,176)	(5,234)	(5,234)	(5,234)	(5,234)
Long Term Liabilities	(24,158)	(21,437)	(20,468)	(19,499)	(18,530)
Long term borrowings	0	0	0	0	0
Finance lease obligations	(3,904)	(4,134)	(3,165)	(2,196)	(1,228)
Other long term liabilities	(20,254)	(17,303)	(17,303)	(17,303)	(17,303)
Net Assets	174,994	203,416	169,111	136,665	108,636
CASH FLOW					
Operating Cash Flow	(19,437)	(31,353)	(28,671)	(28,725)	(25,156)
Net Interest	(361)	(376)	333	208	82
Tax	0	0	0	0	0
Capex	(1,201)	(1,865)	(1,939)	(2,017)	(2,097)
Acquisitions/disposals	418	3,278	0	0	0
Financing	56,776	59,956	0	0	0
Dividends	0	0	0	0	0
Other cash flow	(4,614)	(3,975)	(969)	(5,969)	(10,969)
Net Cash Flow	31,582	25,666	(31,246)	(36,503)	(38,140)
Opening net debt/(cash)	(25,633)	(57,191)	(83,188)	(51,941)	(15,439)
HP finance leases initiated	0	0	0	0	0
Other	(25)	331	0	0	0
Closing net debt/(cash)	(57,191)	(83,188)	(51,941)	(15,439)	22,702

Source: Company data, Edison Investment Research

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