

# Evolva

FY19 results

## Transformation continues

Evolva's FY19 results were above our expectations in terms of sales and EBITDA. Cash flow was also far better than expected as the company has materially reduced its cash burn. Nootkatone is on track for EPA registration and a new product, EVE-X157/Z4, is due to be launched later this year, for the Flavours and Fragrances and Health Ingredients segments. Management has reiterated its commitment to reach cash break-even by FY23 (previous guidance was FY21/23) and is evaluating options to finance future growth until cash break-even, including a capital increase. We have cut our sales and profit forecasts to reflect the guidance that the FY19 growth trajectory will be replicated in FY20 and our fair value is now CHF0.42/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	10.9	(13.1)	(1.6)	0.0	N/A	N/A
12/21e	19.3	(7.8)	(1.0)	0.0	N/A	N/A

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

## FY19 results

Total revenues of CHF11.6m were above our forecast of CHF10.9m, with product revenues (CHF5.5m) somewhat lower than expected, and R&D revenues (CHF6.1m) significantly higher. EBITDA loss was also better at CHF12.3m (forecast CHF15.1m loss), so the net loss was also better than expected. Net cash of CHF39.9m at end FY19 was higher than our forecast of CHF32.1m. Guidance has been refined, with cash break-even expected in FY23. We cut our product revenue estimates in line with guidance for the FY19 trajectory (+60% growth) to be maintained in FY20.

## COVID-19 likely to soften demand

It is still early days, but the effect of the coronavirus in China was to temporarily soften demand for some of Evolva's Flavours & Fragrances products. We expect this scenario is likely to be replicated as the pandemic spreads globally, although it is still too early to determine what the exact impact will be. We have moved our peak sales forecasts for all of Evolva's products out by a year to reflect the temporary disruption.

## Valuation: Fair value CHF0.42/share

We have updated our model to reflect current FX. We continue to value Evolva on a DCF basis with a 25-year model, assuming cash break-even in FY23 (we previously assumed FY22), in line with management guidance. As discussed, we have delayed our assumptions for each product's peak sales by a year. We have also updated our model to reflect the higher than expected net cash at end FY19. Overall, our fair value decreases slightly to CHF0.42/share (from CHF0.51/share previously).

## Food & beverages

23 March 2020

Price **CHF0.157**

Market cap **CHF129m**

Net cash (CHFm) at 31 December 2019	39.9m
Shares in issue	823m
Free float	100%
Code	EVE
Primary exchange	SIX Swiss Ex
Secondary exchange	OTC US

## Share price performance



%	1m	3m	12m
Abs	(42.0)	(13.6)	(36.2)
Rel (local)	(24.9)	6.9	(30.0)
52-week high/low	CHF0.303	CHF0.138	

## Business description

Evolva is a Swiss biotech company focused on the research, development and commercialisation of products based on nature. The company has leading businesses in Flavors and Fragrances, Health Ingredients and Health.

## Next events

AGM	15 April 2020
H120 results	26 August 2020

## Analysts

Sara Welford	+44 (0)20 3077 5700
Russell Pointon	+44 (0)20 3077 5700

[consumer@edisongroup.com](mailto:consumer@edisongroup.com)

[Edison profile page](#)

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## Valuation

We detail our valuation in Exhibit 1. Our fair value decreases to CHF0.42/share as we have delayed our peak product sales by a year for each product. We have also cut our FY20 revenue estimates in light of guidance that product revenues will continue on the same trajectory as FY19 (ie +60%). The company's guidance that FY20 R&D revenue will fall remains unchanged, as the US BARDA (Biomedical Advanced Research and Development Authority) contract comes to an end.

We now assume cash break-even will occur in FY23 (previously FY22), again in line with management guidance. We note management comments that to finance future growth until cash break-even, the company is currently evaluating multiple options including a capital increase. Management has stated that minimising dilution to existing shareholders is one of its aims. Our current forecasts assume the company remains cash-positive until it breaks even on a cash basis in FY23 (we forecast net cash of CHF8m at end FY23). If the cash burn were to accelerate beyond our forecasts, the headroom of CHF8m is rather limited. With the current uncertainty prevailing in the markets, it is difficult to predict the best option for further financing, but at the current share price, every CHF10m of equity raised via a share placing or rights issue would cause 7.5% dilution, before taking into account any discount required to complete the fundraising.

### Exhibit 1: Summary of DCF valuation

Product	Value (CHFm)	Value/share (CHF)	Notes
Stevia (royalty stream)	86.2	0.10	Launched; peak sales: \$600m; royalty stream: 5%
Resveratrol	22.5	0.03	Launched; peak sales: \$140m; likelihood of success 80%; margin: 30%
Nootkatone	168.9	0.21	Launched; peak sales: \$150m; likelihood of success 75%*; margin: 40%
Valencene	14.3	0.02	Launched; peak sales: \$10m; likelihood of success 90%; margin: 40%
R&D partnerships	19.9	0.02	Assume revenue continues to fall
Capex	(2.5)	0.00	Includes contribution to Cargill for commercialisation of EverSweet
Net cash	39.9	0.05	Reported net cash at end FY19
<b>Total</b>	<b>349.2</b>	<b>0.42</b>	<b>Using FY20 average number of shares throughout</b>

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

We use a 25-year DCF valuation with a fade. Each product has varying peak sales, margins, ramp-up assumptions and probabilities of success, as detailed above. In each case, we reduce the R&D and operating expenditure after launch to reflect the lower level of investment required once the product is established on the market. We start to fade stevia in 2031 (year 11) and the other products in 2035 (year 15), and we also assume they become commoditised and their operating margins fall to single digits, which is the level of commoditised food ingredients. Stevia remains a key product, at c 25% of our valuation, after adjusting for tax and capex, but note that we see greater value overall in nootkatone. Registration of the latter with the US EPA for use in pest control is expected over the next six months or so. As stated in the past, this should open up a much larger market for the use of nootkatone, both in the US and also internationally (more detail on Evolva's products and market sizes is available in this [note](#)).

Our valuation purely reflects the products on which Evolva has chosen to concentrate, and we ascribe zero value to all other alliances/collaborations and other projects. We recognise that the latter do retain some residual value, but for the sake of conservatism we err on the side of caution. We also ascribe no value to the new product announced with the FY19 results (EVE-X157/Z4), which is set for launch later this year, but still remains unknown to the market.

## Board and management changes

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In November Evolva announced that Beat In-Albon would be proposed as a new board member at the next AGM and would take over as chairman from Gerard Hoetmer, who would remain as a member of the board. Mr In-Albon is a Lonza veteran. In addition, it announced that the board had decided to reduce its composition from five members to four. Three existing board members would not be seeking re-election, and hence a search would begin for a fourth board member.

In January Evolva announced that Richard Ridinger (former CEO of Lonza and highly regarded) and Stephan Schindler (CFO of Bachem, previously at DSM and also well respected) will be joining the board. The new additions to the board will bring international B2B experience to Evolva. The company also announced that Gerard Hoetmer and Thomas Videbaek would not be seeking re-election after all, and hence the search for a fourth member remains ongoing.

The announcement also included some changes at the executive management level. Scott Fabro, COO, will leave Evolva in June, after two years with the company, and the business units will report directly to CEO Oliver Walker. André Pennartz was appointed CFO effective immediately (in January). The key change here was that the main functions within Evolva will be centred around the Basel area, rather than being split across different geographies (Scott Fabro, for example, is based in the US).

The company is undergoing major change as it transitions from an R&D-focused entity into an early-stage commercial company, and hence the board is changing to reflect this. As a reminder, during Q419 Cargill announced it had started up commercial-scale production of EverSweet, thus marking a milestone for Evolva in its transition.

**Exhibit 1: Financial summary**

	CHF000s	2017	2018	2019	2020e	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		6,817	8,933	11,596	10,891	19,319	30,427
Cost of Sales		(4,698)	(6,816)	(6,305)	(3,681)	(6,807)	(12,111)
Gross Profit		2,119	2,117	5,292	7,210	12,512	18,316
EBITDA		(37,629)	(23,350)	(12,280)	(11,988)	(6,693)	(1,180)
Operating Profit (before GW and except.)		(39,804)	(24,827)	(39,804)	(24,827)	(14,067)	(13,214)
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)	(19,274)	(13,991)	(8,272)
Net Interest		(596)	(622)	(1,486)	160	97	54
Other financial income		(482)	40	0	0	0	0
Profit Before Tax (norm)		(40,882)	(25,409)	(15,553)	(13,054)	(7,834)	(2,158)
Profit Before Tax (FRS 3)		(46,007)	(31,318)	(21,614)	(19,115)	(13,894)	(8,218)
Tax		7,023	2,104	(25)	0	0	0
Profit After Tax (norm)		(33,881)	(23,305)	(15,578)	(13,054)	(7,834)	(2,158)
Profit After Tax (FRS 3)		(38,984)	(29,214)	(21,639)	(19,115)	(13,894)	(8,218)
Average Number of Shares Outstanding (m)		482.1	770.6	482.1	770.6	770.4	810.0
EPS - normalised (c)		(7.0)	(3.0)	(2.0)	(1.6)	(1.0)	(0.3)
EPS - FRS 3 (c)		(8.1)	(3.8)	(2.8)	(2.4)	(1.7)	(1.0)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		31.1	23.7	45.6	66.2	64.8	60.2
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
<b>BALANCE SHEET</b>							
Fixed Assets		132,125	145,825	143,333	137,824	129,569	120,968
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	3,760	2,594	868
Current Assets		107,697	67,192	48,745	34,030	29,544	32,406
Stocks		8,009	4,040	5,392	6,534	11,591	18,256
Debtors		1,831	1,941	1,480	1,416	2,511	3,955
Cash		97,185	60,380	39,920	24,126	13,488	8,241
Other current assets		673	830	1,954	1,954	1,954	1,954
Current Liabilities		(12,261)	(14,705)	(12,295)	(11,084)	(12,527)	(14,977)
Creditors		(1,933)	(743)	(2,912)	(1,700)	(3,143)	(5,593)
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)	(3,969)
Long term borrowings		0	0	0	0	0	0
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	154,634	141,533	134,428
<b>CASH FLOW</b>							
Operating Cash Flow		(35,224)	(23,247)	(13,577)	(14,669)	(9,443)	(4,001)
Net Interest		(379)	(360)	(583)	160	97	54
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)	(1,084)	(1,084)	(1,084)
Net Cash Flow		49,614	(36,775)	(20,413)	(15,793)	(10,639)	(5,247)
Opening net debt/(cash)		(47,516)	(97,184)	(60,381)	(39,920)	(24,127)	(13,488)
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)	(24,127)	(13,488)	(8,241)

Source: Edison Investment Research, company data

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Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1,185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia