

Evolva

Stevia update

A cloudier picture

The much-awaited stevia update has confirmed that EverSweet is still on track to be launched in 2018, and there is a new production plan. That said, talks with Cargill are ongoing and the option to enter into a JV has not yet been exercised, so the risk remains this may not occur. Moreover, FY16 revenues are now expected to be c 30% lower than previous guidance due to a milestone not being reached and customer conversion continuing to take longer than expected. We have adjusted our model to reflect these changes and our new fair value is CHF0.87/share (previously CHF1.10).

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	9.2	(37.9)	(9.5)	0.0	N/A	N/A
12/17e	14.6	(36.7)	(9.2)	0.0	N/A	N/A
12/18e	23.7	(33.0)	(8.3)	0.0	N/A	N/A

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

Production update – agreement not yet reached

As part of its discussions with Cargill, Evolva has considered various production routes for EverSweet. The contract manufacturing route was ruled out early on due to the higher costs involved, and the more likely option was a retrofit of the existing Cargill facility in Blair, Nebraska. In September 2015 Evolva guided towards a cost of CHF30m, but now the retrofit is likely to be much more limited. We forecast a cost of CHF10m. The smaller retrofit should ensure EverSweet retains its first-mover advantage ahead of DSM's launch of a stevia sweetener in late 2018. The move to a new Evolva/Cargill facility would be accelerated under this scenario. Both the retrofit and the new facility are subject to Evolva exercising its option to enter into a JV with Cargill. Talks have been ongoing for over a year now, and the risk remains that the two parties cannot reach an agreement that Evolva deems to be value-creating for its shareholders.

FY16 revenue lower than previously expected

The stevia program that was optimising the yeast strain failed to reach a milestone based on yield, which was expected towards the end of 2016. Management, however, feels good progress has been made and is confident that a launch-ready strain will be achieved during 2017. In addition, product sales increased at a lower rate than projected as customer conversion continues to take longer than expected.

Valuation: Fair value of CHF0.87/share

Our new fair value is CHF0.87/share (previously CHF1.10/share), which reflects a cut in our revenue forecasts, a reduction in our stevia probability risk adjustment, an updated FX rate and a rolled forward DCF. Evolva is well-capitalised with a cash position of c CHF47m at end FY16. 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 and the accelerated move to a new stevia manufacturing facility goes ahead, Evolva will need to raise more cash and re-evaluate its balance sheet, most likely during FY17 or early FY18.

Food & beverages

16 January 2017

Price CHF0.55
Market cap CHF219m

Net cash (CHFm) at end Dec 2016e	47.1
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	37.5	3.8	(47.6)
Rel (local)	32.8	(1.8)	(47.9)
52-week high/low	CHF1.0	CHF0.4	

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

FY16 results	30 March 2017
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Valuation

We value Evolva on a 25-year DCF basis. Our fair value is CHF0.87 (previously CHF1.10), which offers c 60% upside from current levels. We have reduced our FY16 revenue forecasts, in line with management guidance for revenues of CHF9-10m for the year. We have assumed half of the cut is due to the technical milestone not being achieved and the remainder is due to lower sales of launched products.

We have rolled forward our DCF to start in FY17. 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 have updated our estimates to reflect current FX rates and we note the weakening of the Swiss franc vs the US dollar provides a boost to our forecasts. We illustrate a summary of our updated DCF valuation in Exhibit 1.

Exhibit 1: Summary of DCF valuation

Product	Value (CHFm)	Value per share (CHF)	Notes
Stevia royalties	221.0	0.56	Launch date: 2018; peak sales: \$600m; likelihood of success 70%; operating margin: 40%; profit share: 45%.
Saffron royalties	12.8	0.03	Launch date: 2018; peak sales: \$50m; likelihood of success 60%; royalty: 10%.
Resveratrol	92.3	0.23	Launched; peak sales: \$200m; likelihood of success 100%; margin: 40%.
Vanilla royalties	14.8	0.04	Launched; peak sales: \$35m; likelihood of success 100%; royalty: 5%.
Nootkatone	123.8	0.31	Launched; peak sales: \$150m; likelihood of success 75%*; margin: 40%.
Valencene	29.7	0.07	Launched; peak sales: \$10m; likelihood of success 100%; margin: 40%.
Santalol	13.9	0.03	Launch date: 2018; peak sales: \$10m; likelihood of success 60%; margin: 40%.
Legacy products	36.9	0.09	EV-077 for diabetic nephropathy, EV-035 antibiotic indications
L'Oréal/Takasago revenues	106.4	0.27	Launch date: 2020-22; number of products: 5; peak sales: \$150m per product; likelihood of success: 50%; royalty: 8%.
Other consumer royalties	36.7	0.09	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	4.3	0.01	Only includes revenues from existing collaborations and grants.
R&D and Admin	(266.2)	(0.67)	
Tax	(104.0)	(0.26)	
Capex	(21.8)	(0.05)	Includes investment of \$10m for commercialisation of stevia with Cargill.
Net cash	47.1	0.12	Net cash at end FY16e
Total	346.7	0.87	

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.

Stevia: Talks with Cargill ongoing

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. Stevia accounts for c 35% 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 at higher concentrations. However, the risk remains that a competing product may be launched before EverSweet. The only competing fermented stevia that we are aware of is being developed by DSM, and it is due to be commercially available by the end of 2018. Evolva has never issued revenue guidance on stevia, other than stating it believes the addressable market is \$4bn. We assume EverSweet can only reach a peak market share of 15% of the addressable market, or \$600m peak sales, and that it is launched mid-2018.

We have adjusted our probability of success for stevia from 80% to 70%. This aims to capture the uncertainty around the ongoing talks with Cargill, and the lack of progress so far in terms of Evolva exercising its option to enter into a 45% JV with Cargill. We have also adjusted our capex forecasts to reflect the updated guidance regarding the much smaller – and hence cheaper – retrofit of the Cargill Blair, Nebraska facility. Our capex forecast for the project is now CHF10m spent over FY17-18, down from our previous estimate of CHF30m over FY17-19.

Nootkatone: Gaining momentum

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 (Centers for Disease Control and Prevention), 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.

Resveratrol: Wide application range

Resveratrol is another significant product for Evolva. It is a substance that has been shown to have multiple health benefits, improving memory and brain connectivity, but also has applications in advanced materials, dietary supplements, bone health, women's health, oral care and animal nutrition. Within Evolva's product suite, resveratrol has the widest range of applications.

Other products

We have delayed the peak sales year of several of Evolva's products that are the result of collaborations as we believe management is likely to focus resources and time on the stevia launch, and hence other projects may experience some delays compared to our previous forecasts.

Exhibit 1: Financial summary

	CHF000s	2014	2015	2016e	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		10,744	13,364	9,188	14,550	23,669
Cost of Sales		0	0	(842)	(3,427)	(7,971)
Gross Profit		10,744	13,364	8,345	11,123	15,698
EBITDA		(19,405)	(30,305)	(37,073)	(35,628)	(32,300)
Operating Profit (before GW and except.)		(20,872)	(31,947)	(38,004)	(36,684)	(38,254)
Intangible Amortisation		(2,284)	(3,779)	(3,779)	(3,779)	(3,779)
Exceptionals		0	0	0	0	0
Operating Profit		(23,156)	(35,726)	(42,033)	(40,712)	(37,502)
Net Interest		(357)	(129)	333	188	44
Other financial income		57	0	0	0	684
Profit Before Tax (norm)		(21,172)	(32,076)	(37,921)	(36,745)	(32,995)
Profit Before Tax (FRS 3)		(23,456)	(35,855)	(41,700)	(40,524)	(36,774)
Tax		1,613	4,067	0	0	0
Profit After Tax (norm)		(19,069)	(28,113)	(37,921)	(36,745)	(32,995)
Profit After Tax (FRS 3)		(21,843)	(31,788)	(41,700)	(40,524)	(36,774)
Average Number of Shares Outstanding (m)		291.9	353.0	397.9	397.9	397.9
EPS - normalised (c)		(6.4)	(8.0)	(9.5)	(9.2)	(8.3)
EPS - FRS 3 (c)		(7.3)	(9.0)	(10.5)	(10.2)	(9.2)
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	140,567	142,635	144,671
Intangible Assets		136,111	131,940	128,161	124,381	120,602
Tangible Assets		10,484	8,431	9,320	10,168	10,983
Other fixed assets		3,147	3,086	3,086	8,086	13,086
Current Assets		62,870	88,780	50,573	10,830	7,062
Stocks		313	2,217	923	1,878	2,621
Debtors		1,510	2,785	2,014	2,392	3,891
Cash		60,713	83,228	47,086	6,010	0
Other current assets		334	550	550	550	550
Current Liabilities		(13,460)	(7,385)	(7,700)	(7,759)	(40,012)
Creditors		(2,408)	(1,182)	(1,497)	(1,557)	(1,596)
Short term borrowings		(3,522)	0	0	0	(32,214)
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	162,973	126,207	93,190
CASH FLOW						
Operating Cash Flow		(19,437)	(31,353)	(33,436)	(33,144)	(30,061)
Net Interest		(361)	(376)	333	188	44
Tax		0	0	0	0	0
Capex		(1,201)	(1,865)	(2,070)	(2,152)	(2,239)
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)	(5,969)
Net Cash Flow		31,582	25,666	(36,141)	(41,077)	(38,224)
Opening net debt/(cash)		(25,633)	(57,191)	(83,188)	(47,047)	(5,970)
HP finance leases initiated		0	0	0	0	0
Other		(25)	331	0	0	0
Closing net debt/(cash)		(57,191)	(83,188)	(47,047)	(5,970)	32,254

Source: Edison Investment Research, Evolva data. Note: Other cash flow estimates 2017/18 include potential CHF10m cost of Cargill EverSweet plant retrofit.

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