# Evolva

FY17 results

## EverSweet

Food & beverages

**The announcement that Cargill has officially started producing EverSweet brings commercial reality to Evolva's stevia product, after years of R&D. In line with its new focus on a capital-light strategy, Evolva is not participating in a JV with Cargill, but will rather draw down a royalty stream. This allows a positive contribution to be made more rapidly, and significantly reduces the financial demands on Evolva. We adjust our model to account for this, and also trim our forecasts for FY18. As a result, our fair value moves to €0.60 (from €0.65).**

| Year end | Revenue (CHFm) | PBT* (CHFm) | EPS* (c) | DPS (c) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 12/16 | 9.6 | (35.9) | (6.8) | 0.0 | N/A | N/A |
| 12/17 | 6.8 | (40.9) | (7.0) | 0.0 | N/A | N/A |
| 12/18e | 8.8 | (35.6) | (4.0) | 0.0 | N/A | N/A |
| 12/19e | 22.4 | (28.4) | (3.2) | 0.0 | N/A | N/A |

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

## Delivering on the new strategy

CEO Simon Waddington outlined his new strategy with the H117 results: over time, Evolva has transformed itself from an R&D and technology platform with a number of products with potential, to an innovative ingredients company with a number of commercialised products. The new strategy favours remaining asset-light, thus preferring strategic partnerships – such as the one with Cargill – or using contract manufacturers for production of its ingredients. We believe the decision to take a royalty stream from Cargill is wise, as it significantly reduces the risks borne by Evolva, accelerates the timing of the positive contribution and improves the cash flow profile, yet only shaves 7% off our overall DCF value. The next significant catalyst should be the US Environmental Protection Agency (EPA) registration of nootkatone, which is expected by year-end.

## FY17 results

Total revenues of CHF6.8m were slightly below our forecast of CHF7.4m, with both product and R&D revenues lower than expected, and the net loss of CHF39.0m was above our forecast of CHF36.0m. Given the guidance for FY18 product revenues to at least double vs the CHF2.0m reported in 2017, we have cut our product sales assumptions for FY18 from CHF7.3m to CHF5.0m, and as a result we also cut sales forecasts for FY19, although to a much smaller extent.

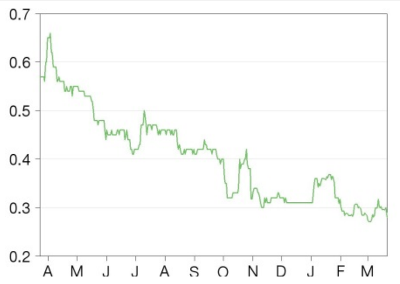
## Valuation: Fair value of CHF0.60 per share

Our new fair value is CHF0.60/share (previously CHF0.65). We have updated our model to reflect the changes for EverSweet, namely that there will be a royalty stream that will contribute to the top line, rather than a 30% JV participation, and the capital investment required by Evolva will be much lower. We continue to value Evolva on a DCF basis with a 25-year model. We continue to model break-even in FY21, in line with management guidance.

**22 March 2018**

| | |
|---|---|
| **Price** | **CHF0.28** |
| **Market cap** | **CHF216m** |
| Net cash at 31 December 2017 (CHFm) | 97.2 |
| Shares in issue | 770.2m |
| Free float | 76% |
| Code | EVE |
| Primary exchange | SIX Swiss Ex |
| Secondary exchange | OTC US |

### Share price performance




| % | 1m | 3m | 12m |
|---|---|---|---|
| Abs | (6.2) | (9.7) | (40.3) |
| Rel (local) | (4.0) | (3.1) | (41.5) |
| 52-week high/low | | CHF0.8 | CHF0.39 |

### 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

| | |
|---|---|
| Q118 results | May 2018 |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# Valuation update

We detail our valuation in Exhibit 1. Our fair value falls slightly to CHF0.60/share (from CHF0.65/share previously). We have cut our FY18 sales forecasts for all the key products in light of the guidance that product revenues will at least double in FY18. As discussed above, our product revenue forecast for FY18 falls from CHF7.3m to CHF5.0m (this compares to CHF2.0m reported for FY17). Our FY19 product revenue forecast falls from CHF22.0m to CHF19.4m (excluding revenue from R&D partnerships and grants). Assuming successful commercialisation, we expect a significant ramp-up in sales of EverSweet (stevia) and nootkatone. Note that we still assume break-even occurs in FY21, in line with management guidance. We now expect the company to end FY20 with CHF4.7m of net debt. We believe by that stage, with the product revenues ramping up, Evolva ought to be able to raise debt to cover its financing needs.

**Exhibit 1: Summary of DCF valuation**

| Product | Value (CHFm) | Value/share (CHF) | Notes |
|---|---|---|---|
| Stevia (royalty stream) | 111.2 | 0.14 | Launch date: 2018; peak sales: $600m; royalty stream: 5%. |
| Resveratrol | 29.8 | 0.04 | Launched; peak sales: $140m; likelihood of success 75%; margin: 30%. |
| Nootkatone | 231.6 | 0.30 | Launched; peak sales: $150m; likelihood of success 75%*; margin: 40%. |
| Valencene | 18.0 | 0.02 | Launched; peak sales: $10m; likelihood of success 90%; margin: 40%. |
| Capex | (24.7) | (0.03) | Includes investment of $18m for commercialisation of stevia with Cargill |
| Net cash | 97.2 | 0.13 | Reported net cash at end FY17 |
| **Total** | **463.0** | **0.60** | **Using FY18 average number of shares throughout** |

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.

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 13) and the other products in 2035 (year 17), and we also assume they become commoditised and their operating margins fall to the 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.

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. Management has stated that if commercial partners were to express an interest in these existing projects (for example saffron or santalol), it would consider them.

## EverSweet agreement

Cargill and Evolva have reached a new agreement regarding their collaboration, which supersedes all previous agreements. Under the new agreement, Evolva will receive a royalty stream based on the sales of EverSweet. The royalty will be a mid-single digit percentage of sales. We have assumed 5%. The royalty will start to accrue as soon as EverSweet starts generating revenues. This will bring a positive contribution to Evolva significantly sooner than under previous agreements as, with a share of JV arrangement, Evolva would have had to bear its share of any start-up losses before seeing a positive contribution. We have left our assumptions unchanged for the underlying EverSweet market, and continue to expect peak sales of $600m, reached in FY24. This results in a royalty stream of $30m by FY24 (given a royalty rate of 5%), or $21m on a net basis according to our assumptions. Previously we assumed operating margins of 30% and a 30% JV arrangement.

Furthermore, we previously applied a risk adjustment of 90% to stevia as it had not yet been launched, which we no longer apply. This resulted in a risk-adjusted net profit contribution of $34m, which is only slightly higher than the royalty stream we now forecast.

The new agreement, however, also means Evolva is required to make a much lower financial contribution to the facility in Blair, Nebraska, which was previously forecast to cost $45m over three years. Evolva must now contribute $18m, payable over the next 12 months.

Overall therefore, the NPV of EverSweet has decreased from CHF167m to CHF111m, but the NPV of our capex has moved from -CHF47m to -CHF25m. The overall reduction to Evolva's NPV is 7%, and yet the risk profile has improved materially, as any risks associated with start-up/production issues will be entirely shouldered by Cargill, and no standalone project financing is required by Evolva (this was a condition of the old agreement).

**Exhibit 1: Financial summary**

| CHF'000s | 2015 | 2016 | 2017 | 2018e | 2019e | 2020e |
|---|---|---|---|---|---|---|
| Year end 31 December | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS |
| **PROFIT & LOSS** | | | | | | |
| Revenue | 13,364 | 9,576 | 6,847 | 8,845 | 22,440 | 51,979 |
| Cost of Sales | 0 | (2,951) | (4,698) | (3,177) | (9,815) | (25,212) |
| Gross Profit | 13,364 | 6,624 | 2,149 | 5,668 | 12,625 | 26,767 |
| EBITDA | (30,305) | (33,965) | (37,599) | (35,247) | (27,967) | (13,613) |
| Operating Profit (before GW and except.) | (31,947) | (36,078) | (39,774) | (35,976) | (28,678) | (35,976) |
| Intangible Amortisation | (3,779) | (5,090) | (5,126) | (5,126) | (5,126) | (5,126) |
| Exceptionals | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Profit | (35,726) | (41,169) | (44,899) | (41,101) | (33,804) | (19,439) |
| Net Interest | (129) | 497 | (596) | 389 | 278 | 178 |
| Other financial income | 0 | (338) | (482) | 0 | 0 | 0 |
| Profit Before Tax (norm) | (32,076) | (35,919) | (40,852) | (35,587) | (28,401) | (14,135) |
| Profit Before Tax (FRS 3) | (35,855) | (41,009) | (45,977) | (40,713) | (33,526) | (19,261) |
| Tax | 4,067 | 5,160 | 7,023 | 4,886 | 4,023 | 2,311 |
| Profit After Tax (norm) | (28,113) | (30,880) | (33,851) | (30,702) | (24,377) | (11,824) |
| Profit After Tax (FRS 3) | (31,788) | (35,850) | (38,954) | (35,827) | (29,503) | (16,949) |
| Average Number of Shares Outstanding (m) | 401.3 | 452.8 | 482.1 | 770.6 | 770.6 | 770.6 |
| EPS - normalised (c) | (7.0) | (6.8) | (7.0) | (4.0) | (3.2) | (1.5) |
| EPS - FRS 3 (c) | (7.9) | (7.9) | (8.1) | (4.6) | (3.8) | (2.2) |
| Dividend per share (c) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross Margin (%) | N/A | N/A | N/A | N/A | N/A | N/A |
| 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 | 143,457 | 141,356 | 132,125 | 138,876 | 139,669 | 134,498 |
| Intangible Assets | 131,940 | 130,256 | 124,487 | 119,361 | 114,236 | 109,110 |
| Tangible Assets | 8,431 | 7,522 | 5,208 | 5,085 | 5,003 | 4,958 |
| Other fixed assets | 3,086 | 3,578 | 2,430 | 14,430 | 20,430 | 20,430 |
| Current Assets | 88,780 | 56,880 | 107,697 | 70,435 | 47,374 | 41,124 |
| Stocks | 2,217 | 5,687 | 8,009 | 5,223 | 7,529 | 11,743 |
| Debtors | 2,785 | 2,139 | 1,831 | 2,181 | 3,689 | 8,545 |
| Cash | 83,228 | 47,517 | 97,185 | 57,473 | 26,574 | 8,944 |
| Other current assets | 550 | 1,537 | 673 | 5,558 | 9,582 | 11,893 |
| Current Liabilities | (7,385) | (5,690) | (12,261) | (11,409) | (11,339) | (11,274) |
| Creditors | (1,182) | (1,174) | (1,933) | (1,101) | (1,046) | (994) |
| Short term borrowings | 0 | 0 | 0 | 0 | 0 | 0 |
| Finance lease obligations | (969) | (978) | (781) | (781) | (781) | (781) |
| Other current liabilities | (5,234) | (3,537) | (9,546) | (9,527) | (9,512) | (9,500) |
| Long Term Liabilities | (21,437) | (19,489) | (6,840) | (9,727) | (13,750) | (16,061) |
| Long term borrowings | 0 | 0 | 0 | 0 | 0 | 0 |
| Finance lease obligations | (4,134) | (3,564) | (2,400) | (2,400) | (2,400) | (2,400) |
| Other long term liabilities | (17,303) | (15,925) | (4,440) | (7,327) | (11,350) | (13,661) |
| Net Assets | 203,416 | 173,057 | 220,721 | 188,175 | 161,954 | 148,287 |
| **CASH FLOW** | | | | | | |
| Operating Cash Flow | (31,353) | (33,551) | (35,194) | (27,496) | (24,546) | (17,153) |
| Net Interest | (376) | (301) | (379) | 389 | 278 | 178 |
| Tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Capex | (1,865) | (947) | (582) | (606) | (630) | (655) |
| Acquisitions/disposals | 3,278 | (210) | 0 | 0 | 0 | 0 |
| Financing | 59,956 | 0 | 86,457 | 0 | 0 | 0 |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 |
| Other cash flow | (3,975) | (677) | (658) | (12,000) | (6,000) | 0 |
| Net Cash Flow | 25,666 | (35,686) | 49,644 | (39,713) | (30,898) | (17,630) |
| Opening net debt/(cash) | (57,191) | (83,228) | (47,516) | (97,185) | (57,473) | (26,575) |
| HP finance leases initiated | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 371 | (26) | 24 | 1 | 0 | 0 |
| Closing net debt/(cash) | (83,228) | (47,516) | (97,185) | (57,473) | (26,575) | (8,944) |

Source: Edison Investment Research, company data

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