

Evolva

Everything EverSweet

Evolva's Q3 trading statement is mixed, but overall we believe it contains more positive than negative news. The announcement that Cargill and DSM are to form a new joint venture to produce fermentation-based stevia under the EverSweet brand is not a threat to Evolva's position and indeed could potentially accelerate growth of the market that is still in its infancy. We note that revenue guidance is somewhat less bullish than at the H1 results and we therefore trim our forecasts slightly. We also update our forecasts for FX and overall our fair value remains unchanged at CHF0.58

| 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 | 7.6 | (24.5) | (2.7) | 0.0 | N/A | N/A |
| 12/19e | 17.8 | (19.1) | (2.1) | 0.0 | N/A | N/A |

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

EverSweet expanding

Cargill and DSM's new JV, Avansya, has been established in order to share technologies and their products will be marketed under the EverSweet brand name, which belongs to Cargill. Evolva's collaboration with Cargill remains unchanged; therefore, Evolva's product is effectively being brought into the JV. While the details are not yet clear, we assume that the JV will allow DSM's steviol glycosides to be scaled up to industrial scale more rapidly, as Avansya will utilise Cargill's existing Blair, Nebraska plant.

The implications

From a legal perspective, the new JV has no impact on Evolva's collaboration with Cargill. Evolva's product (in collaboration with Cargill) consists of a mix of Reb D and Reb M steviol glycosides, while it would appear that DSM's product is more likely to focus on a mix of Reb A and Reb M. We note that the formation of the new JV is subject to regulatory approval and clearance by the competition authorities, as DSM and Cargill represent the vast majority of the fermentation-based stevia market. Of course, agriculturally-derived stevia is available and is currently a much larger market, therefore we expect the JV to go ahead. Two major players joining forces could significantly accelerate market growth and acceptance of a fermentation-based alternative to agriculturally-derived stevia. Longer term, it should also be positive for pricing, in our view.

Valuation: Fair value remains CHF0.58

We have updated our model to reflect current FX and management's revised guidance for revenue growth to be "strong double digit" vs its previous guidance that growth would continue on the trajectory witnessed during H118 when revenues doubled. We have therefore trimmed our FY18 revenue forecasts. We continue to value Evolva on a DCF basis with a 25-year model, assuming break-even in FY21, in line with management guidance. Our fair value is unchanged at CHF0.58/share.

Q3 trading statement

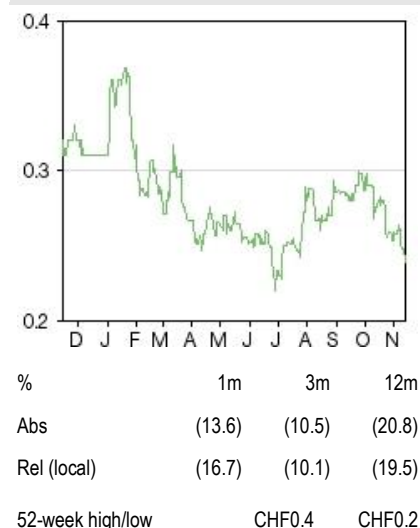
Food & beverages

13 November 2018

Price CHF0.24
Market cap CHF185m

| | |
|---------------------------------|--------------|
| Net cash (CHFm) at 30 June 2018 | 75 |
| Shares in issue | 769.8m |
| Free float | 85% |
| Code | EVE |
| Primary exchange | SIX Swiss Ex |
| Secondary exchange | OTC US |

Share price performance



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

| | |
|--------------|------------|
| FY18 results | March 2019 |
|--------------|------------|

Analysts

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Forecasts and valuation

We detail our valuation in Exhibit 1. Our fair value remains unchanged at CHF0.58/share. We have slightly trimmed our FY18 sales forecasts in light of the guidance that product revenue growth will be “strong double-digit”. Our product revenue forecast for FY18 falls from CHF3.9m to CHF3.7m (compared to CHF2.0m reported in FY17). At this stage we leave our forecasts unchanged for FY19 and beyond. We note the filing for the registration of nootkatone for pest control applications remains on track. We still assume break-even occurs in FY21, in line with management guidance.

Exhibit 1: Summary of DCF valuation

| Product | Value (CHFm) | Value/share (CHF) | Notes |
|-------------------------|--------------|-------------------|--|
| Stevia (royalty stream) | 124.6 | 0.16 | Launched; peak sales: \$600m; royalty stream: 5% |
| Resveratrol | 13.4 | 0.02 | Launched; peak sales: \$140m; likelihood of success 80%; margin: 30%. |
| Nootkatone | 223.8 | 0.29 | Launched; peak sales: \$150m; likelihood of success 75%*; margin: 40%. |
| Valencene | 21.1 | 0.03 | Launched; peak sales: \$10m; likelihood of success 90%; margin: 40%. |
| R&D partnerships | 23.4 | 0.03 | Assume revenue falls until FY20 and then stabilises |
| Capex | -13.7 | -0.02 | Includes contribution to Cargill for commercialisation of EverSweet |
| Net cash | 51.7 | 0.07 | Estimated net cash at FY18 |
| Total | 444.3 | 0.58 | Using FY19 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. As detailed above, each product has varying peak sales, margins, ramp-up assumptions and probabilities of success. Once the product is established on the market, we reduce the R&D and operating expenditure after launch to reflect the lower level of investment required in each case. We start to fade stevia in 2031 (year 12) and the other products in 2035 (year 16), 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), they would consider them. However, we do ascribe a value to R&D grants and partnerships, which provide an ongoing revenue stream. We forecast a reduction in revenue, in line with management’s indications that there will be less focus on R&D partnerships going forward. We therefore expect R&D revenue to decline through to FY20, and subsequently stabilise.

Exhibit 2: 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 | 7,555 | 17,802 | 46,929 |
| Cost of Sales | | 0 | (2,951) | (4,698) | (2,275) | (7,041) | (22,203) |
| Gross Profit | | 13,364 | 6,624 | 2,149 | 5,279 | 10,762 | 24,726 |
| EBITDA | | (30,305) | (33,965) | (37,599) | (24,160) | (18,627) | (4,694) |
| Operating Profit (before GW and except.) | | (31,947) | (36,078) | (39,774) | (24,889) | (19,339) | (5,395) |
| 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) | (44,900) | (30,015) | (24,464) | (10,520) |
| Net Interest | | (129) | 497 | (596) | 389 | 259 | 196 |
| Other financial income | | 0 | (338) | (482) | 0 | 0 | 0 |
| Profit Before Tax (norm) | | (32,076) | (35,919) | (40,852) | (24,500) | (19,080) | (5,199) |
| Profit Before Tax (FRS 3) | | (35,855) | (41,009) | (45,977) | (29,626) | (24,206) | (10,324) |
| Tax | | 4,067 | 5,160 | 7,023 | 3,555 | 2,905 | 1,239 |
| Profit After Tax (norm) | | (28,113) | (30,880) | (33,851) | (20,945) | (16,176) | (3,960) |
| Profit After Tax (FRS 3) | | (31,788) | (35,850) | (38,954) | (26,071) | (21,301) | (9,085) |
| 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) | (2.7) | (2.1) | (0.5) |
| EPS - FRS 3 (c) | | (7.9) | (7.9) | (8.1) | (3.4) | (2.8) | (1.2) |
| 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 | 154,328 | 152,214 | 145,802 |
| 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 | 29,881 | 32,976 | 31,734 |
| Current Assets | | 88,780 | 56,880 | 107,697 | 61,513 | 45,553 | 46,111 |
| Stocks | | 2,217 | 5,687 | 8,009 | 3,740 | 5,401 | 10,341 |
| Debtors | | 2,785 | 2,139 | 1,831 | 1,863 | 2,926 | 7,714 |
| Cash | | 83,228 | 47,517 | 97,185 | 51,682 | 30,093 | 19,684 |
| Other current assets | | 550 | 1,537 | 673 | 4,228 | 7,133 | 8,372 |
| Current Liabilities | | (7,385) | (5,690) | (12,261) | (11,062) | (11,009) | (10,961) |
| Creditors | | (1,182) | (1,174) | (1,933) | (753) | (716) | (680) |
| 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) | (6,840) | (6,840) | (6,840) |
| 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) | (4,440) | (4,440) | (4,440) |
| Net Assets | | 203,416 | 173,057 | 220,721 | 197,939 | 179,919 | 174,113 |
| CASH FLOW | | | | | | | |
| Operating Cash Flow | | (31,353) | (33,551) | (35,194) | (32,286) | (15,218) | (9,950) |
| Net Interest | | (376) | (301) | (379) | 389 | 259 | 196 |
| 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) | (13,000) | (6,000) | 0 |
| Net Cash Flow | | 25,666 | (35,686) | 49,643 | (45,503) | (21,589) | (10,408) |
| Opening net debt/(cash) | | (57,191) | (83,228) | (47,516) | (97,184) | (51,682) | (30,093) |
| 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) | (97,184) | (51,682) | (30,093) | (19,685) |

Source: Edison Investment Research, Company data

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