

Evolva

EPA update

Nootkatone green light nears

A 15-day public review period for nootkatone has started in the US. All studies submitted to the US Environment Protection Agency (EPA) have been accepted and the review period allows the general public to share their comments with the agency. We believe the public notice period is largely a formality and expect the EPA to complete the registration of nootkatone shortly thereafter. Nootkatone use will then be allowed in pest control. Following the delay to the approval process announced in March 2019, this comes as good news for the financial trajectory of the business.

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	11.5	(15.6)	(2.0)	0.0	N/A	N/A
12/20e	10.7	(13.2)	(1.6)	0.0	N/A	N/A
12/21e	18.8	(8.1)	(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.

EPA review

Nootkatone is already used as a fragrance ingredient. Evolva, however, identified a potential use in pest control, in particular as an active ingredient against ticks and mosquitoes. Evolva collaborated with the Centers for Disease Control and Prevention and the Biomedical Advanced Research and Development Authority and received funds from them. In March 2019, the EPA identified an issue with one of the studies submitted and requested more information. Evolva submitted all further information by September 2019 and the approval process seems to be almost complete.

Pest control opens a significant market

The advantage of using nootkatone in pest control is that it is a safe and familiar ingredient. Nootkatone is extracted from the bark of Alaskan Yellow Cedar trees and grapefruit skin and has a fresh scent. Obtaining nootkatone from nature is very expensive and not sustainable. Evolva can produce a 98% pure nature-identical nootkatone by combining its yeast fermentation process with a proprietary conversion technique. The pest control market is significantly larger than nootkatone's use in fragrance. Our assumption remains of CHF150m of peak sales for the product, with the peak achieved in 2026.

Valuation: Fair value CHF0.41/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, in line with management guidance. Overall, our fair value decreases slightly to CHF0.41/share (from CHF0.42/share previously) given the small movement in FX rates. As a reminder, nootkatone contributes c 50% of our fair value for Evolva, with most of this coming from use in pest control.

Food & beverages

3 July 2020

Price CHF0.28

Market cap CHF229m

Net cash (CHFm) at 31 December 2019	39.9
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	21.3	61.6	46.5
Rel (local)	18.5	47.1	44.1
52-week high/low	CHF0.30	CHF0.14	

Business description

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

Next events

H120 results	26 August 2020
FY20 results	February 2021

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Valuation

We detail our valuation in Exhibit 1. Our fair value decreases to CHF0.41/share as we have updated our model for movements in FX rates. All our other assumptions are unchanged, including that cash break even will occur in FY23.

We note Evolva's recent announcement on the issuance of convertible notes up to a maximum of CHF12m over 12 months to Nice & Green, a Swiss corporate financing company. The principal amount of each note issuance is either repayable in cash or by way of conversion into Evolva ordinary shares and the repayment method is at Evolva's discretion. The conversion price will be 95% of the lowest daily VWAP during the six trading days preceding the conversion. The financing facility will be used to finance investments in connection with Evolva's expansion and can be drawn in tranches. It creates financial flexibility for Evolva at a reasonable cost.

As a reminder, at the FY19 results in March management commented that to finance future growth until cash break-even, the company was evaluating multiple options including a capital increase. Management had stated that minimising dilution to existing shareholders was one of its aims. The announcement regarding the convertible notes should provide enough financial flexibility. 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 FY22). If the cash burn were to accelerate beyond our forecasts, the headroom of CHF8m is rather limited and the convertible notes should help to bridge the gap.

Exhibit 1: Summary of DCF valuation

Product	Value (CHFm)	Value/share (CHF)	Notes
Stevia (royalty stream)	83.7	0.10	Launched; peak sales: \$600m; royalty stream: 5%
Resveratrol	21.9	0.03	Launched; peak sales: \$140m; margin: 30%
Nootkatone	164.2	0.20	Launched; peak sales: \$150m; margin: 40%
Valencene	13.9	0.02	Launched; peak sales: \$10m; margin: 40%
R&D partnerships	19.3	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
Total	340.5	0.41	Using FY20 average number of shares throughout

Source: Edison Investment Research. Note: WACC = 12.5%.

Exhibit 2: Financial summary

	CHF'000s	2017	2018	2019	2020e	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		6,817	8,933	11,543	10,671	18,836	29,614
Cost of Sales		(4,698)	(6,816)	(6,305)	(3,577)	(6,615)	(11,770)
Gross Profit		2,119	2,117	5,238	7,093	12,221	17,843
EBITDA		(37,629)	(23,350)	(12,333)	(12,104)	(6,985)	(1,653)
Operating Profit (before GW and except.)		(39,804)	(24,827)	(14,120)	(13,330)	(8,222)	(2,684)
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)	(20,181)	(19,391)	(14,282)	(8,745)
Net Interest		(596)	(622)	(1,486)	160	96	53
Other financial income		(482)	40	0	0	0	0
Profit Before Tax (norm)		(40,882)	(25,409)	(15,606)	(13,171)	(8,125)	(2,631)
Profit Before Tax (FRS 3)		(46,007)	(31,318)	(21,667)	(19,231)	(14,186)	(8,692)
Tax		7,023	2,104	(25)	0	0	0
Profit After Tax (norm)		(33,881)	(23,305)	(15,632)	(13,171)	(8,125)	(2,631)
Profit After Tax (FRS 3)		(38,984)	(29,214)	(21,692)	(19,231)	(14,186)	(8,692)
Average Number of Shares Outstanding (m)		482.1	770.6	770.4	810.0	823.2	823.2
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)	(1.1)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		31.1	23.7	45.4	66.5	64.9	60.3
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		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	33,813	28,960	31,226
Stocks		8,009	4,040	5,392	6,402	11,302	17,768
Debtors		1,831	1,941	1,480	1,387	2,449	3,850
Cash		97,185	60,380	39,920	24,070	13,256	7,654
Other current assets		673	830	1,954	1,954	1,954	1,954
Current Liabilities		(12,261)	(14,705)	(12,295)	(11,036)	(12,439)	(14,819)
Creditors		(1,933)	(743)	(2,912)	(1,652)	(3,055)	(5,436)
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	154,464	141,037	133,405
CASH FLOW							
Operating Cash Flow		(35,224)	(23,247)	(13,631)	(14,672)	(9,618)	(4,354)
Net Interest		(379)	(360)	(583)	160	96	53
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)	(20,467)	(15,797)	(10,814)	(5,601)
Opening net debt/(cash)		(47,516)	(97,184)	(60,381)	(39,867)	(24,070)	(13,256)
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)	(39,867)	(24,070)	(13,256)	(7,654)

Source: Evolva, Edison Investment Research

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