

Evolva

FY21 results

A new era

Evolva's FY21 revenues of CHF9.9m were below our forecast of CHF14.1m as the pandemic continued to stifle momentum during H2. Flavours and Fragrances grew revenues by 48% as consumer demand for natural ingredients remained strong. The Health Ingredients segment grew revenues by 46%, though the royalty stream from Eversweet was below company expectations. Gross contribution in Q4 was at break-even, as per guidance. The outlook is for revenue growth of 50% at constant currency in FY22, which is below our previous forecast of CHF27.5m. We cut our forecasts to reflect new guidance and reassess our long-term estimates.

Year end	Revenue (CHFm)	PBT* (CHFm)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/20	7.5	(23.4)	(2.9)	0.0	N/A	N/A
12/21	9.9	(24.5)	(2.6)	0.0	N/A	N/A
12/22e	14.9	(13.5)	(1.3)	0.0	N/A	N/A
12/23e	23.4	(8.6)	(0.8)	0.0	N/A	N/A

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

Positive gross margin contribution from FY22

As Evolva progresses towards having a product-based revenue model, it has confirmed that FY22 will continue the trend started in Q4 and the gross contribution will be positive, which will be a key step towards eventually achieving positive operating and net profit. The new CEO, Christian Wichert, will revise the strategy and mid-term targets by the H1 results in August. The guidance of reaching cash break-even by end FY23 has notably been dropped for now.

Renewed focus on commercialisation and agility

The new CEO, who was appointed unexpectedly in mid-February with immediate effect, has given his first impressions of the business. He believes Evolva is well-placed to capitalise on the long-term consumer trend of nature-based products, which are in the sweet spot of health, wellness and sustainability. His immediate focus will be on three levers: boosting commercial performance, executing spending and cost discipline and changing the culture to be entrepreneurial, agile and collaborative.

Valuation: Fair value of CHF0.24/share

We continue to value Evolva on a DCF basis with a 25-year model. We have reassessed our long-term growth assumptions and trimmed our peak sales forecasts for most of Evolva's products in our model. Our fair value reduces to CHF0.24/share from CHF0.30/share previously. As a reminder, nootkatone contributes c 50% of our fair value for Evolva, with most of this coming from its use in pest control.

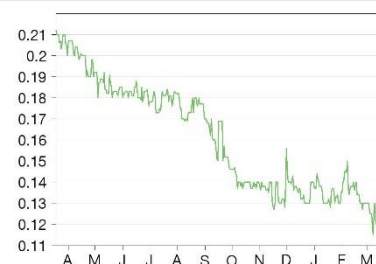
Food & beverages

18 March 2022

Price **CHF0.115**
Market cap **CHF119m**

Net cash (CHFm) at 31 December 2021	11.0
Shares in issue	844.0m
Free float	100%
Code	EVE
Primary exchange	SIX Swiss Exchange
Secondary exchange	OTC US

Share price performance



%	1m	3m	12m
Abs	(12.5)	(9.1)	(43.3)
Rel (local)	(12.4)	(4.2)	(48.6)
52-week high/low	CHF0.21	CHF0.12	

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 Protection.

Next events

AGM	12 April 2022
H1 results	August 2022

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FY21 results and forecasts

Total revenue was up 31% in FY21, to CHF9.9m. Product-related revenue was up 40% to CHF9.1m, with all business segments contributing to growth. The company also significantly strengthened its manufacturing network during 2021, thus enabling future growth and profitability improvements. Gross contribution was at break-even for Q421 and FY21 gross profit was negative CHF9.3m, which included CHF5.6m of additional costs to enlarge the supplier base and scale up the manufacture of new products.

EBIT was negative CHF42.0m, which included CHF9.6m of one-time impairment charges related to patent and patent applications (as announced during H121). EBITDA for the period was negative CHF23.8m. Net cash from operating activities was negative CHF29.8m, including a CHF6.8m build-up of inventories of finished goods as the business builds up scale. Net cash at end FY21 was CHF11.0m versus CHF13.1m at end H121 and CHF 19.7m at end FY20. There were undrawn financing lines of CHF26.0 at the year end.

In Exhibit 1 we illustrate our forecasts versus the actual FY21 results and the key changes to our forecasts. We have cut our product revenue forecasts in FY22 to reflect the updated revenue guidance. This is significantly below our previous expectations; we expect this is in part due to the new CEO wishing to remain cautious while he gets to know the business more fully. We note that the H221 revenue performance was significantly weaker than expected, and indeed weaker than H1. This was in part caused by the omicron variant stifling growth during H2 (which obviously was not expected at the time of the H1 results), but management also admitted that H121 had benefitted from supply bottlenecks in H220 being resolved, thus demand had been artificially high and subsequently normalised during H221. The expectation is for a more normal FY22, and therefore growth in H222 is likely to outpace that in H122 as the comparatives will be tough during H1 and easier during H2. We have also cut our EBITDA forecasts, as the guidance for EBITDA and cash break-even by FY23 has been dropped.

Exhibit 1: Key forecasts

	2021		2022e		2023e	
	Forecast	Actual	Old	New	Old	New
Product revenue	13.5	9.1	27.0	14.4	53.4	23.0
R&D revenue	0.7	0.7	0.5	0.5	0.3	0.4
Total revenue	14.2	9.9	27.5	14.9	53.7	23.4
Gross profit	(2.2)	(9.3)	12.5	5.7	26.0	10.5
EBITDA	(15.1)	(23.8)	(2.5)	(9.5)	10.9	(4.7)
Operating profit	(25.2)	(42.0)	(10.3)	(18.0)	3.3	(13.1)
Net cash/(debt) at end of year	2.0	11.0	(11.9)	1.3	(8.1)	(7.3)

Source: Edison Investment Research, company data

Valuation

We detail our valuation in Exhibit 2. Our fair value decreases from CHF0.30/share to CHF0.24/share as we cut our sales forecasts both in the near term, as shown in Exhibit 1, and our peak sales for all products, as we reappraise their long-term potential.

We note nootkatone contributes just over 50% to our fair value of Evolva, with most of this coming from its use in pest control. Management has stated that it has made good progress on the regulatory front with Nootkashield (its nootkatone product used in pest control) and it is working on market-ready formulations to be sold in South-East Asia.

We continue to exclude L-arabinose (previously known as EVE-X157/Z4) from our model. The reducing sugar is used as a flavour ingredient and has potential as a prebiotic and an ingredient to support healthy blood sugar, and it has a significant addressable market (now disclosed as c CHF250m). However, as it is the latest product to be added to Evolva's roster, full-scale commercial production could be subject to delays (currently scheduled for Q422), hence we prudently exclude it at present. We recognise that it could provide upside to our current forecasts.

Exhibit 2: Summary of DCF valuation

Product	Value (CHFm)	Value/share (CHF)	Notes
Stevia (royalty stream)	79.8	0.08	Launched; peak sales: \$500m; royalty stream: 5%
Resveratrol	35.7	0.03	Launched; peak sales: \$36m; margin: 30%.
Nootkatone	137.7	0.13	Launched; peak sales: \$140m; margin: 40%.
Valencene	13.6	0.01	Launched; peak sales: \$8.5m; margin: 40%.
R&D partnerships	6.3	0.01	Assume revenue continues to fall
Capex	(4.4)	0.00	
Net debt	1.3	0.00	Forecast net cash at end FY22
Funding gap requirement	(20.1)	(0.02)	
Total	249.9	0.24	Using last reported number of shares (1031m)

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

Exhibit 3: Financial summary

	CHF'000s	2019	2020	2021	2022e	2023e	2024e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		11,596	7,541	9,878	14,947	23,368	42,022
Cost of Sales		(6,305)	(9,783)	(19,184)	(9,230)	(12,860)	(23,557)
Gross Profit		5,292	(2,242)	(9,306)	5,717	10,508	18,465
EBITDA		(12,280)	(16,733)	(23,796)	(9,463)	(4,736)	3,134
Operating Profit (before GW and except.)		(14,067)	(18,397)	(34,724)	(10,653)	(25,095)	2,243
Intangible Amortisation		(6,060)	(6,508)	(7,306)	(7,306)	(7,306)	(7,306)
Exceptionals		0	0	(9,628)	0	0	0
Operating Profit		(20,128)	(24,905)	(42,030)	(17,959)	(13,064)	(5,063)
Net Interest		(1,486)	(4,978)	622	(2,819)	(2,857)	(2,892)
Other financial income		0	0	0	0	0	0
Profit Before Tax (norm)		(15,553)	(23,375)	(24,473)	(13,472)	(8,616)	(649)
Profit Before Tax (FRS 3)		(21,614)	(29,882)	(41,408)	(20,778)	(15,922)	(7,955)
Tax		(25)	18	141	0	0	0
Profit After Tax (norm)		(15,578)	(23,357)	(24,332)	(13,472)	(8,616)	(649)
Profit After Tax (FRS 3)		(21,639)	(29,864)	(41,266)	(20,778)	(15,922)	(7,955)
Average Number of Shares Outstanding (m)		770.4	809.3	926.2	1,030.6	1,030.6	1,030.6
EPS - normalised (c)		(2.0)	(2.9)	(2.6)	(1.3)	(0.8)	(0.1)
EPS - FRS 3 (c)		(2.8)	(3.7)	(4.5)	(2.0)	(1.5)	(0.8)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		45.6	-29.7	-94.2	38.2	45.0	43.9
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		143,333	133,316	126,068	117,920	109,955	102,136
Intangible Assets		133,939	123,894	113,302	105,996	98,690	91,384
Tangible Assets		7,211	6,914	5,953	5,111	4,451	3,938
Other fixed assets		2,184	2,508	6,814	6,814	6,814	6,814
Current Assets		48,745	33,577	34,410	17,028	17,672	30,357
Stocks		5,392	9,125	16,269	12,705	12,852	23,112
Debtors		1,480	2,347	4,502	2,541	3,038	5,463
Cash		39,920	19,669	11,857	0	0	0
Other current assets		1,954	2,435	1,782	1,782	1,782	1,782
Current Liabilities		(12,295)	(15,139)	(15,221)	(13,340)	(14,026)	(16,047)
Creditors		(2,912)	(2,128)	(3,625)	(1,744)	(2,430)	(4,451)
Short term borrowings		0	0	0	0	0	0
Finance lease obligations		(1,289)	(1,059)	(834)	(834)	(834)	(834)
Other current liabilities		(8,095)	(11,952)	(10,762)	(10,762)	(10,762)	(10,762)
Long Term Liabilities		(7,221)	(6,662)	(28,383)	(23,633)	(10,006)	(20,657)
Long term borrowings		0	0	(19,200)	(19,200)	(6,403)	(17,884)
Finance lease obligations		(4,840)	(4,179)	(3,574)	(2,744)	(1,914)	(1,083)
Other long term liabilities		(2,381)	(2,484)	(5,609)	(1,689)	(1,689)	(1,689)
Net Assets		172,562	145,092	116,875	97,976	103,595	95,789
CASH FLOW							
Operating Cash Flow		(13,577)	(22,317)	(29,355)	(5,670)	(4,546)	(7,382)
Net Interest		(583)	(1,046)	(431)	(2,819)	(2,857)	(2,892)
Capex		(193)	(1,223)	(335)	(349)	(363)	(377)
Acquisitions/disposals		0	0	0	0	0	0
Financing		164	0	7,500	0	0	0
Dividends		0	0	0	0	0	0
Other cash flow		(6,224)	4,479	13,917	(830)	(830)	(830)
Net Cash Flow		(20,413)	(20,106)	(8,704)	(9,667)	(8,596)	(11,481)
Opening net debt/(cash)		(60,381)	(39,920)	(19,670)	(11,005)	(1,337)	7,259
HP finance leases initiated		0	0	0	0	0	0
Other		(47)	(144)	39	0	0	0
Closing net debt/(cash)		(39,920)	(19,670)	(11,005)	(1,337)	7,259	18,739

Source: Edison Investment Research, Company data

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