



Evolve publishes financial results for the first half of 2016 and provides business update

18 August 2016 – Evolve (SIX: EVE) today announces its financial results for the period 1 January to 30 June 2016 and provides a business update. The Powerpoint presentation and [condensed half-year accounts](#) are available on Evolve's website.

Key highlights of 2016 to date:

- Strong growth in sales pipeline for nootkatone, valencene and resveratrol.
- Solid technical, regulatory and intellectual property progress on EverSweet™
- Increased focus on key products that address important unmet consumer needs
- Resveratrol production bottlenecks removed
- Resveratrol under development with US Navy for use as lightweight, fire resistant composite
- Nootkatone proving to be efficacious against a wide range of key pests; safety data encouraging
- Support from CDC and NIH for nootkatone use in insect control
- Broadened commercial reach via Singapore sales office and extended distributor network
- Driven product costs down significantly further, across the board
- Achieved milestones in Takasago project
- US passes new food labelling law that clarifies regulatory landscape for Evolve products

Financial highlights:

- 1H 2016 revenues of CHF 3.7 million (1H 2015: CHF 8.3mn, of which CHF 4mn was non-recurring)
- Product revenues doubled, albeit from a low base
- Cash position of CHF 66.7 million on 30 June 2016

Neil Goldsmith, CEO of Evolve said, "During the first half of 2016 we have focused on two key areas. Firstly, on driving the sales and value added potential of resveratrol, nootkatone and valencene. We have seen a significant increase in our sales pipeline, expanded our sales team, and validated multiple new applications and formulations of our products. We have filed patents on many of these, and are in discussion with potential partners and customers. Secondly, driving down the production costs of our on-market products. This has been very successful, with the costs of these products now on average just 25% of what they were some two years ago. We also achieved continuing progress toward cost reduction for EverSweet™, though we are not yet ready to specify a launch date. Overall, I am very encouraged by the progress we achieved in the year so far. With continuing focus on these two points over the months and years to come, we strongly believe our focus products can build into strong profit streams in the future."

Jakob Dynnes Hansen, CFO, commented, “Recurring revenues were down slightly in the first half as more R&D partnerships are now based on a 50/50 sharing of costs, rather than being fully funded by the partner. While this lowers revenues short-term, it clearly lifts the longer term revenue and profit potential by giving us either an increased share of product margins or exploitation rights in specific markets. We maintain our view that revenues in the second half of the year will be higher than those in the first half, partly due to the timing of entering new partnerships, but also due to increased product sales. As we said in March, the cash outflow remains on a high level but overall spending is well under control.”

Operational Review

Products (and partnerships)

Evolva’s fermentation-based technologies allow a wide range of natural ingredients to be made in a better way. It is our strategy to gradually build a portfolio of ingredients for use in the healthcare, nutrition and wellness sectors, with some being commercialised by us, and others via partners.

We have built a significant pipeline of ingredients, with everything being made in yeast. For some ingredients we finance all the work ourselves, for others we work with partners, whilst yet others have come via acquisitions. In this section we will focus on the progress of our three key products but also touch upon milestones reached in other projects.

Product revenues in the first half of 2016 were CHF 0.4 million (first half 2015 CHF 0.2 million). The main constraints on sales were supply shortages on resveratrol and longer than expected product validation timelines by customers of our Flavour & Fragrance (F&F) products.

Stevia

In autumn 2015 our partner Cargill unveiled the branding of the next-generation zero-calorie sweetener under the name EverSweet™. The product contains the great-tasting Reb M and Reb D molecules and convincingly overcomes stevia’s previous taste issues. Evolva has developed yeast strains producing Reb M and Reb D. Stevia represented our largest R&D programme during the first half of 2016.

Cargill and Evolva are steadily clearing the remaining hurdles for a commercial launch. In recent months, we have made significant progress in this effort. First, Evolva was granted a pivotal patent by the European Patent Office on a novel technique for producing the best-tasting stevia sweeteners (“steviol glycosides”). We currently have 54 patents pending around the world related to yeast fermentation-derived steviol glycosides. With the addition of this most recent patent, we now have four granted stevia sweetener patents.

A second key milestone was the issuance by the US Food and Drug Administration (FDA) of a GRAS (Generally Recognized as Safe) No-Objection letter, qualifying EverSweet™ for use in food and beverages. As we stated in March, a key remaining challenge is the level of production costs. This is as a result of a combination of factors, including strain characteristics; fermentation and downstream processing costs; facility conversion costs, production scale, and current customer expectations on pricing. We have identified the bottlenecks and are working hard to remove these, supported by world-class experts in this area. We are working on several parts of the process in parallel and have covered roughly half of the technical trajectory since our March statement. Once the process is completed, we are well-placed for a decision on the initial production location. We expect to update on Stevia around year end 2016.

Resveratrol

Our resveratrol product generated its first sales in 2015, but since launch sales have been limited by supply chain issues. Revenues in the first half of 2016 were still affected by product shortages. The focus in 2016 to date has been on the following areas.

- Expanding the potential market and adding value to the product by validating the utility of resveratrol in new applications. We are working with third party groups to investigate the potential in areas including women's health, periodontitis and healthy ageing.
- Perhaps the highlight is resveratrol's potential as a key ingredient for lightweight fire- and heat-resistant composites and coating materials, where we are working together with the US Navy to develop a new class of structural composite materials engineered from a specified formulation of our resveratrol. We have produced and delivered this material and will continue to work with the Navy to advance this new class of composites. In addition to the benefits for the US Navy, we see potential for a broad spectrum of civilian applications including in aviation, aerospace, automotive, public transport, construction, electronics, energy storage and transmission.
- We are also boosting resveratrol's potential by participating in commercial platforms such as trade shows, industry conferences and product-focused webinars. The commercial team, supporting the product, grew significantly and in May we appointed the experienced industry executive Angela Tsetsis to head this effort.
- Working with our new Contract Manufacturing Organisation (CMO) to remove production bottlenecks. As we predicted in March, we successfully improved the process by mid-2016. We believe supply will no longer be a limiting factor going forward and expect sales to gather pace later this year and next. As a result we have increased our sales efforts on resveratrol in recent months and our sales pipeline has increased from c. 40 prospects at the start of the second quarter to c. 150 prospects currently (though of course the majority of the new prospects are still relatively early in the sales process).

- Further reduction of the production costs by improving the performance of both our yeast strains and the downstream process. After introducing a more efficient yeast strain into production in 2015, we are on track to further lower costs this year, and estimate that our cost per kilogramme for 2016 will be just one-third of the 2014 level. We believe COGS (Cost of Goods Sold) will continue to decline strongly in years to come, widening resveratrol's market potential.

Nootkatone and valencene

We launched nootkatone into Flavour and Fragrance (F&F) applications in August 2015. Whilst adoption has been somewhat slower than expected (due to a longer validation process at potential key accounts), underlying interest has been as strong as expected. Nonetheless, and as previously guided, revenues and bottom line impact will be modest in the F&F application.

We continue to see global pest and disease vector control (including ticks and mosquitoes) as the largest commercial market opportunity for nootkatone, although sales will not truly commence until we have the necessary approvals in place. In the first half of 2016 we have worked with multiple potential customers, as well as on our own behalf, in demonstrating the utility of nootkatone against a wide range of insects and related pests. We currently have more than 50 discussions, and a number of active collaborations, with potential customers and partners with nootkatone for pest and vector control, representing a more than doubling of the pipeline from end 2015 (though of course the majority of the new prospects are still relatively early in discussions).

In April 2016 we signed a license agreement with the US Centers for Disease Control and Prevention (CDC), granting Evolva the exclusive worldwide patent rights to develop and commercialise nootkatone for the control of a wide range of disease and virus vectors such as ticks, mosquitoes, fleas, flies, lice, bed bugs, and other biting insects. And in July we announced that the US National Institute of Allergy and Infectious Diseases (NIAID), part of the National Institutes of Health (NIH), is sponsoring studies to test Evolva's nootkatone against mosquitoes infected with Zika virus. The study will evaluate nootkatone in multiple formulations against wild type and insecticide-resistant mosquitoes that carry the virus.

We are making good progress in the process with the US Environmental Protection Agency (EPA) for nootkatone's approval as insect repellent, and given this continues we expect approval in 2018. We are also working on regulatory approval of nootkatone in a number of other geographies.

As a spin-off to our nootkatone program, we launched valencene, an F&F ingredient associated with oranges, in December 2015.

Selected developments on other products and partnerships

Product names in *italics* are code words for products whose identities are undisclosed.

Product	Status	Partner	Recent progress
Vanillin	On market	IFF	Each party is expected to continue separately to the degree that the current agreement permits.
Saffron	Optimisation	-	Samples to potential customers. GRAS preparations.
<i>Opal</i>	Pathway	L'Oréal	Partner reports good application results
<i>Tourmaline</i>	Pathway	Takasago	Early technical milestones achieved March 2016.
<i>Vanadium</i>	Pathway	Valent	Early milestones achieved.
<i>Agate</i>	At partner	Ajinomoto	Partner progressing following agreed time line.
EV-077	At partner	Serodus	Entered Clinical Phase IIa.

Financial review

(CHF in million)	1 January – 30 June	
	2016	2015
Revenues	3.7	8.3
R&D expenses	(16.2)	(18.1)
Manufacturing expenses	(0.9)	(0.9)
SG&A expenses	(7.2)	(6.2)
Financial items and tax	1.8	(0.1)
Net result	(18.8)	(17.0)
Earnings per share (CHF)	(0.05)	(0.05)
	30 June 2016	31 Dec. 2015
Cash and cash equivalents	66.7	83.2
Total assets	212.7	232.2
Equity	184.7	203.4

Income statement

As expected, total revenues in the first half of 2016 were lower than in the same period last year which was impacted by the non-recurring income of CHF 4 million from the sale of EV-35 to Emergent.

(CHF million)	1 Jan. – 30 June	
	2016	2015
Revenue from research & development (R&D)	3.3	4.1
Revenue from product sales	0.4	0.2
Recurring revenues	3.7	4.3
Other income (non-recurring)	-	4.0
Total revenue	3.7	8.3

Income from R&D in the form of research fees and a milestone payment declined from CHF 4.1 million to CHF 3.3 million as more R&D partnerships are now based on a 50/50 sharing of costs with the partner. Product sales roughly doubled and represented 11% of revenues in the first half of 2016. Most of the product sales derived from nootkatone/valencene, with the remainder coming from resveratrol. As expected in March 2016, the manufacturing process for resveratrol has been improved and as of mid-2016, we had a good supply of the product. Nootkatone sales were somewhat below expectations as customers need time to reformulate their products and/or ask for new specifications. Overall feedback remains positive for all products and we have successfully lowered nootkatone production costs to very competitive levels.

R&D expenses decreased by 10% to CHF 16.2 million in the first half of 2016. Adjusting for a non-recurring charge of CHF 2.9 million in the first half of last year, the underlying increase in R&D expenses was 7%. This reflects limited growth in the R&D headcount as well as continued investment in the product pipeline as we deploy resources on new products and on lowering the production costs of launched products.

Manufacturing expenses represent costs for goods sold (COGS) in the first 6 months of 2016 as well as costs for manufacturing staff who interact with contract manufacturers. As such they also include sums that are investments for the future. The amount remained around last year's level despite increased sales reflecting that COGS are decreasing.

SG&A (Selling, General & Administrative) expenses increased to CHF 7.2 million from CHF 6.2 million in the first half of 2015. Almost three-quarters of the increase is due to regulatory costs around the nootkatone application for approval as an insect repellent in the USA. Increased commercial efforts of bringing products to market also were an important driver.

Financial items and taxes, on balance, made a positive contribution in the first half of 2016 mainly due to higher losses which lead to a higher amount of deferred tax income.

Balance sheet and cash flow

The **operating cash outflow** rose to CHF 15.7 million in the first half of 2016 from CHF 14.6 million in the same period last year. Despite significant prepayments for ongoing production runs, investment in working capital remained under control.

Cash outflow from investing activities amounted to CHF 0.6 million, unchanged from last year. An additional CHF 0.2 million for R&D investment was financed through leasing. The major part of the investment relates to purchases of equipment for our research labs.

Cash flow from financing was slightly negative in the first half of 2016, as an inflow from employee option exercise was more than offset by finance lease payments.

The cash position, equity and total assets all decreased by an amount reflecting the operating loss of the first half of 2016.

Outlook 2016

We still expect total revenues in 2016 to be around the level reached in 2015, subject to the development in product sales, closing of additional contracts and milestone achievements in the second half of 2016.

Based on the progress in the order book, we expect sales of both resveratrol and nootkatone to significantly increase in the second half of 2016.

The partnership pipeline has developed in a positive manner during the last 3-6 months and we expect to close 2-3 important partnerships also in 2016.

As stated in March 2016, the cash outflow is expected to remain relatively high in 2016 but is well covered by the current cash position. The cash outflow reflects very much our focused investment in building sales and reducing COGS for our key products. The result of this can already be seen in the important progress in product development and it will pay off in increased revenues and margins in the near and longer term.

Personnel

On 30 June 2016, the total headcount in Evolva amounted to 172 full-time employees (year-end 2015: 163), of which 133 (128) were involved in research, development and manufacturing activities while 39 (35) had managerial, commercial and administrative tasks. The expansion of the commercial team aims to gain closer customer contact, thereby driving sales, improving service and growing market knowledge. We do not expect headcount to grow further in the near future, absent significant partnership or revenue generating events.

The Evolva share

The Evolva share showed a negative performance during the first six months of 2016, reflecting the trend among the peer group companies and the stock market in general. The value of shares traded was CHF 1.2 million on average per day in the first half of 2016 (first half 2015: CHF 3.4 million). At the end of June 2016, 398.7 million shares were outstanding, an increase of 0.2% since 31 December 2015 due to option exercise.

- Ends -

Press/analyst call at 2 PM CET on 18 August 2016

Neil Goldsmith (CEO) and Jakob Dynnes Hansen (CFO) will provide an update on progress in a call for analysts and media. The dial-in numbers are:

+41 (0)58 310 50 00 (Europe)

+44 (0)203 059 58 62 (UK)

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A replay will be available as a podcast for 2 weeks after the call. The link to the podcast will be posted on Evolva's website.

About Evolva

Evolva is a pioneer and global leader in sustainable, fermentation-based approaches to ingredients for health, wellness and nutrition. Evolva's products include stevia, resveratrol, vanillin, nootkatone and saffron. As well as developing its own proprietary ingredients, Evolva also deploys its technology for partners, providing them with a competitive edge and sharing in the returns they make. For more information see www.evolva.com. Questions about our fermentation approach? Have a look at [our video](#).

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