

## Evogene Second Quarter 2018 Results Announcement, August 8, 2018

OFER HAVIV – CEO

### Section A

Thank you and good day everyone. We appreciate you joining us today for our second quarter 2018 results conference call. With me today, as usual, is Alex Taskar, our CFO and joining us is Ido Dor, General Manager of the Ag-Biologicals division.

After my brief overview of our three Ag divisions and two subsidiaries, Alex will discuss our financial results for the second quarter of 2018. As mentioned in our previous call, each quarterly call we will focus on a different division or subsidiary of Evogene to provide more color and details. Therefore in today's call, following Alex, Ido will provide more insight into our Ag-Biologicals division that was established in 2015 and is an exciting and promising activity. We will then open the call for your questions.

\*\*\*

I will start my comments with a short review of the highlights in our 3 Ag divisions.

Let's start with our **Ag-Seeds** division, led by Dr. Arnon Heyman, focused on improving seed traits using GM and non-GM technologies. The activities of this division are divided into 3 segments based on trait category: (i) increased yield and improved environmental stress tolerance, (ii) disease resistance and (iii) insect control.

Today I will focus on our third segment, insect control seed traits.

I am happy to update that we engaged in testing agreements with world leading seed companies, on leading insect control candidate genes that have already exhibited insecticidal activity in Evogene model plant experiments, as a preliminary stage towards potential licensing agreements. We are waiting for the results of these companies' validation and expect to have initial indications by the end of the year.

In addition, we recently announced that Evogene and IMAmt, the largest Brazilian Cotton Growers' Association, entered a collaboration in the field of insect resistance traits in cotton. Evogene will screen its insect control candidate genes to identify toxin genes to the targeted diseases and IMAmt will validate them in lab assays. The parties intend to enter negotiations for a commercial license agreement, based on the results.

I would like to emphasize that the insects we are focusing on as part of this collaboration are devastating pests threatening the viability of the cotton industry, which have made entire geographies inaccessible for cotton cultivation.

Moving now to our second division - **Ag-Biologicals**, led by Ido Dor, the division's General Manager. This division is focused on two primary segments of microbial-based products: (i) bio-stimulants for yield improvement and (ii) Bio-pesticides for pest control. As I mentioned earlier, later in this call, Ido will give a broad overview of this market and Evogene's activity in this field.

Still, I would like to emphasize that in the segment of bio-stimulants we recently announced that we achieved positive yield results leading to phase advancement in our bio-stimulant for wheat program. This phase advancement, from discovery to initial development, is based on meeting efficacy criteria in spring wheat field trials with significant yield improvement. Further steps will include field trials in the US in the coming season followed with expansion into Western Canada, which are the key geographies for a 1st product launch.

In the segment of bio-pesticides, both our bio-insecticides and bio-fungicides have reached positive results in lab and green house testing with a set of microbial candidates for a variety of diseases and insects, such as Fusarium, Botrytis and Corn rootworm, in our row crop and specialty crops programs.

In conclusion, I think it is clear that we are progressing rapidly and, as we have stated before, we believe we will be able to launch our first product in 2021.

Regarding our third ag division, **Ag-Chemicals**, Eran Kosover the General Manager of this division, spoke in length during our last quarterly call, and we are continuing to see progress and growing interest in this activity. I expect to update further with more details in the next quarter.

Moving now to Evogene's subsidiaries. I would like to remind you we have 2 subsidiaries; Evofuel, focusing on the commercialization of castor seeds and **Biomica**, focusing on developing microbiome based human therapeutics. In this call I would like to focus on Biomica.

During the last quarter we updated that Biomica's focus will be on the development of therapeutics for Immuno-Oncology, GI related disorders and antibiotic resistant bacteria. Today I would like to give you some more information as to our ongoing activities in each area.

In the area of Immuno-Oncology, Biomica obtained relevant data and aims to use its proprietary platform to identify and characterize microbes relevant for the enhancement of cancer immunotherapy. We expect initial results till the end of this year.

In the area of GI related disorders Biomica has recently integrated publicly available Big-Data (including microbial metagenomics and clinical information) into its PRISM platform, a dedicated part of the CPB platform for Biomica's activity, and have computationally identified a novel microbial consortia that is predicted to carry out pivotal microbial functions that can potentially decrease inflammation in IBD patients.

In the area of antibiotic resistant bacteria Biomica successfully completed a computational screen of tens of millions of small molecules for the identification of effective chemistry against one of the most common hospital-acquired infections that is resistant to conventional antibiotic treatments. The company will now enter biological in vitro assays for validation.

I am very pleased with the progress we see in this subsidiary's activity and especially taking into consideration that this subsidiary was only initiated at the end of 2017.

As usual, I would like to conclude with a short update on the CPB platform's latest achievements. I would like to remind, that the CPB platform is at the heart of Evogene's activity and it is what allows us to tackle various life science challenges and develop our pipelines.

Until recently, our use of the CPB platform was focused mainly on the discovery phase, yet with recent developments and progress in our pipeline, we are now applying these predictive tools which have benefited us so much in the discovery stage, to product development and optimization. This is particularly relevant to our chemical pipelines – now with discovered molecules exhibiting desired biological activity. More specifically, in addition to the existing CPB optimization capabilities, we are now applying artificial intelligence to achieve optimization of product attributes.

With that, I would now like to turn the call over to Alex for his review of the financial results. Alex?

**Alex Taskar – CFO**

**Section B**

Thank you Ofer let me begin by reviewing our balance sheet. Evogene continues to maintain a strong financial position, with approximately \$62.3 million in cash, cash related accounts and bank deposits as of June 30, 2018, which represents cash usage of approximately \$9.5 million during the first half of 2018 and approximately \$3.6 million dollars during the second quarter of 2018.

The cash usage during the first half of 2018 includes pre-paid expenses and non-recurring payments of approximately \$1.0 million, mainly in the first quarter of 2018.

Assuming the currently expected course of business, we estimate that our net cash usage for the full-year of 2018 will be in the range of \$14 to \$16 million dollars.

Let's now turn to the statement of operations.

As we've discussed in prior calls, Evogene's revenues to date have consisted primarily of research and development revenues, reflecting R&D cost reimbursement under our various collaboration agreements. The majority of these agreements also provide for development milestone payments and royalties or other forms of revenue sharing from successfully developed products.

More specifically, revenues for the first half of 2018 were \$0.7 million in comparison to \$1.9 million during the first half of 2017. Revenues for the second quarter of 2018 were \$0.4 million in comparison to \$1.2 million reported for the second quarter of 2017. This respective decrease of approximately \$1.2 million and \$0.8 million dollar, and the related decrease in cost of revenues - mainly reflect a reduction in collaboration activities under our agreement with Monsanto, as this multi-year collaboration advances from gene discovery and

validation, which was largely done by Evogene, to pre-development efforts, conducted by Monsanto.

Moving on, research and development expenses continue to be our single largest category of expense. The R&D expenses for the first half of 2018 decreased to approximately \$7.0 million compared to \$8.0 million dollars for the same period in 2017. Likewise, our R&D expenses for the second quarter of 2018 decreased to approximately \$3.5 million compared to \$ 4.0 million dollars for the second quarter in 2017. This decrease in large part reflects operating efficiencies achieved as a result of our new corporate structure that became effective the beginning of this year.

Operating loss for the first half of 2018 was approximately \$9.6 million, in comparison to approximately \$10.4 million in the first half of 2017. Operating loss for the second quarter of 2018 was approximately \$4.7 million in comparison to approximately \$5.2 million in the second quarter in 2017. The decrease in operating loss was mainly due to the decrease in R&D expenses as described, which was partially offset by an increase in the Business development expenses.

The net financing expenses for the first half of 2018 were \$0.5 million in comparison to net financing income of \$0.8 million in the corresponding period. The net financing expenses for the second quarter of 2018 were \$0.1 million in comparison to net financing income of \$0.4 million in the comparable quarter in 2017.

This decrease in the first half of 2018 is mainly due to an increase in the USD/Shekel exchange rate in the second quarter of 2018 which negatively affected the Company's Shekel based portfolio and unrealized re-evaluation of marketable securities following the increase in the US treasury bonds interest rate.

So, despite the decline in operating loss following the new corporate structure, the loss for the first half of 2018 increased to \$10.2 million in comparison to \$9.6 million in the first half of 2017, due to the increase in the net financing

expenses. Net loss in the second quarter of 2018 increased to \$4.8 million compared to \$4.7 million in the second quarter in 2017.

I would like now to turn the call over to Ido Dor, who, leads the **Ag-Biologicals** division. Ido ....

## Ido Dor – GM Ag Biologicals

### Section C

Thank you Alex.

I am happy to take part in Evogene's quarterly conference call.

My name is Ido Dor and I have been with Evogene for more than 6 years, filling various business development and managerial positions. I have led the Ag-Biologicals activity since its initiation in 2015 and a year ago and once it was separated into a division, I took on the role of Evogene EVP and General Manager of the Ag- Biologicals division.

The Ag-Biologicals division's mission is to improve agriculture productivity, sustainability and consumer's health through the introduction of microbiome based Ag-Biologicals.

Ag-Biologicals are products that originate from natural sources such as microbials, plant extracts and natural enemies used for the improvement of crop productivity by enhancing the plant's performance or enabling better protection from pests.

Crop productivity improvement today is dominated by improved seed traits, ag-chemicals and nutrient product solutions – this is a market of more than \$200B a year.

Currently, we see the following trends influencing this market:

1. The need to further improve crop yield in light of population growth.

2. The need for new solution types that overcome pest resistance to existing products.
3. The need for solutions with improved safety profile in light of increasingly strict regulatory requirements and consumer demand for healthier and more sustainable solutions.

Ag-biologicals can address these trends as they offer a promising type of solution for driving crop productivity and are considered a healthier and more sustainable alternative that is environmentally and consumer friendly. As such, Ag-Biologicals have been gaining popularity and are being increasingly adopted by farmers to supplement their “toolbox”.

In addition, Ag-Biologicals have a significantly shorter time to market and lower cost of development compared to other alternatives. This reduces the financial threshold for bringing a new product to the market, and also enables faster response to evolving market needs.

These advantages are the reason for the interest and support Ag-Biological companies have received over the past few years in the form of significant investments in the field – both from big ag players such as: BASF, Bayer-Monsanto, Syngenta, and Corteva as well as from investments in new and innovative startups.

The market for Ag-biological products was estimated at over \$3 billion in 2015, according to Phillips McDougall and is expected to grow at an annual rate of approximately 14 percent.

The reason that the market is **only** \$3 billion is because existing products are limited in their performance mainly due to 3 key challenges: low efficacy, lack of stability across environments and conditions and challenges related to commercial viability such as limited shelf life and high costs of goods.

This is why the main efforts today are focused on developing next generation products addressing those limitations and these will be the catalyst for the growth in this market.

And... these are exactly the type of products we are developing.

Our division is focused on developing next-generation bio-stimulant, bio-insecticide and bio-fungicide products based on microbiome.

Microbiome consists of microbe communities that live in or on an organism such as plants, pests or human beings. Following years of research, it has become evident that the microbiome has a significant role in the way organisms work – in a way, these microbes can support and adapt to the organism needs and thereby improve its performance.

We believe that our division is uniquely positioned to achieve next generation ag biological products by utilizing our CPB platform focusing on the plant microbiome.

By utilizing the CPB platform, we are able to decode the complex plant- pest–microbiome interaction and design second generation novel products based on this understanding, addressing the challenges of efficacy, stability and commercial viability.

In Evogene's Ag-Biologicals Division we harness relevant microbiome know how, tailored Big-Data and advance informatics including Artificial Intelligence technologies that enable us to identify, optimize and develop a single or consortia of microbes into potential next generation products.

I would like to also emphasize that from the initiation of our Ag-biological activities, in addition to our discovery efforts, we have undertaken significant investment for developing formulation and fermentation infrastructure.

We decided to do so to ensure the following: 1) creating the necessary in-house infrastructure for product development, start-to-end; and 2) establishing a unique proprietary formulation & fermentation technology platform since we believe that this could be an important driver addressing the challenges of the existing products.

I am very proud of our team that has all the skills and capabilities to conduct the formulation & fermentation for our ongoing product program and we are also utilizing the CPB platform to drive the future generation of formulation & fermentation technology. I am tremendously happy with the progress we made.

With respect to our business model, our go-to-market varies depending on type of crop and application.

For row crops such as corn where the market is dominated by large Ag companies it will be collaboration-based and the end product reaching to the field will be most likely a seed coating.

In other crops, such as, high-value specialty crops, where the market is less concentrated - our go-to-market is based on direct commercialization through distribution channels or via strategic alliances.

I will now briefly describe our product pipeline, which is divided to two segments of activity- bio-stimulants and bio-pesticides.

Let's start with our bio-stimulants product program. Bio-stimulants are products aimed to improve the plant's yield and natural response to environmental conditions – for example: improved resistance to drought, better nutrient uptake etc.

Our first program is bio-stimulant seed coatings in corn – addressing a potential market of \$B's dollars. In 2017 we announced a collaboration with DuPont that today is part of Corteva the Ag Company established after the Dow DuPont merger. Corteva is a leader in the corn market and according to Phillips McDougall, in 2015, Dow and DuPont held 38% of the US corn market. This collaboration includes a significant part of our activity in this field.

In the next 2 years, as part of our ongoing activity in the bio-stimulants program, we expect to conduct additional field activity in the US in order to further validate and optimize our candidate products. Naturally, positive results will indicate successful progress towards a product launch

The second product program is focused on a bio-stimulant for spring wheat seed, where we announced positive results and advancement a few weeks ago. As Ofer mentioned, in this announcement we disclosed achieving positive yield results leading to phase advancement. Further steps are expected to include field trials in the US in the coming season followed with expansion into Western Canada, which are the key geographies for a 1st product launch. During the next 2 years we may be able to submit our 1st regulation package.

The second segment of activity is bio-pesticides. Bio-pesticides are natural solutions aiming to protect plants from pests. This segment includes bio-insecticides (against insects) and bio-fungicides (against fungi and diseases).

We currently have 5 product programs under different stages of development in both product types.

For bio-insecticide programs we currently focus on the following 3 programs:

1. Corn Root Worm – one of the most devastating insects with damages estimated with <\$1B. We are currently in the discovery phase with a few promising strains under evaluation.
2. Stink Bugs with a target market in soy – a significant pest creating annual damages of 100's M. We are currently taking promising candidates to further evaluation.
3. Lepidoptera for addressing lucrative niches, currently in the discovery phase.

For bio-fungicide programs we currently focus on the following 2 major programs:

1. Fusarium for corn - one of the most significant corn diseases, impacting quality and yield. Through seed coating we seek to supply new modes of action and longer durability to support protection from the disease damages. We are advancing greenhouse testing and expect to announce phase advancement in the upcoming months toward further validation in fields.

2. Downey mildew and botrytis focusing on specialty crops, with a 1<sup>st</sup> product which will target grapes. Just to give a sense of the crop protection spent today, we can see near to \$1B expenditure in the relevant segments. We believe these segments will adopt biological solutions fast in order to address growing regulation and consumers pressure.

I am very pleased with the progress I see in our bio-pesticide programs, which are currently being tested in greenhouse experiments. Next advancement will include field trials in target geographies for further evaluation and development of leading product candidates.

Looking forward, Evogene's Ag-Biologicals' division's target is to achieve revenue from first product sales in 2021.

After giving you the overall understanding, I would like to thank you for your time and I hope I was able to share these exciting opportunities and our enthusiasm. In the next period of time we will continue to update on advancement in our development pipeline and collaborations.

With that said, we would now like to open up the call for any questions you may have. Operator....

### **OFER HAVIV – CEO – Closing Remarks**

I would like to thank everyone that participated in the call today. Thank you and good day.