



Evogene Third Quarter 2018 Results Announcement, November 14, 2018

Section A

Thank you and good day everyone. We appreciate you joining us today for our third quarter 2018 results conference call. With me today, as usual, is Alex Taskar, our CFO and joining us is Assaf Dotan, CEO of our subsidiary Evofuel.

As I stated in our first quarter results conference call, in each quarterly call, in addition to providing highlights from our ongoing activities, we will focus in depth on one of our subsidiaries or divisions. During the first quarter, we focused on Ag-Chemicals, and during the second quarter we focused on Ag Biologicals. In today's call, Assaf Dotan, Evofuel's CEO, will talk about Evofuel's activity, which focuses on addressing the growing demand for a stable supply of castor oil for diverse industrial uses.

So...in my comments today, I will emphasize once again Evogene's strategy, as outlined in our letter to the shareholders issued at the beginning of the year, and how we are implementing this strategy as it is reflected in the highlights from the last quarter. Assaf will then take the floor to provide more insight on Evofuel's activities and will be followed by Alex, who will discuss our financial results for the third quarter of 2018. We will then open the call for your questions.

For those of you who are new to Evogene, I would like to take this opportunity to encourage you to read our letter to the shareholders from the beginning of the year, which can be found on our website.



As you all know, Evogene's mission is to develop novel products for life-science markets through the use of our unique Computational Predictive Biology (CPB) platform.

Today, we are leveraging the CPB platform in the following life-science markets:

- **Agriculture**, in which we currently have activities in the following three fields: Ag Chemicals, Ag-Biologicals and Seed Traits.
- **Human Health**, in which we currently have an activity in the field of microbiome based human therapeutics,
- And for **Industrial Applications**, where we developed an integrated ag-solution for commercial cultivation of castor grain to address the growing demand for castor oil.

In accordance with our strategy, we are in the process of implementing a new corporate structure, which is expected to accelerate our commercialization efforts and make product development more efficient. The new structure will be based on stand-alone companies, with each of them focused on a distinct field, such as Ag-Chemicals, Ag-Biologicals or Castor Oil, with access to the CPB platform, providing their main competitive advantage.

Each of our current and future subsidiaries, with their own management and R&D team, has three main objectives: **First** - to build its product pipeline. **Second** - establish its go-to-market strategy based on collaborations or direct sales, and **third** to enhance the creation of its internal value and secure its own financial resources.

I am very proud to state that we are progressing with the overall execution of Evogene's new strategy and corporate structure. I am happy to share that by year end we are expected to have completed the establishment of a new subsidiary which will include Evogene's Ag-Chemicals activities. This subsidiary will be based on the assets of our Ag-Chemicals division and will include all of its activities, personnel and collaborations. We expect this standalone structure will accelerate our commercialization efforts, as well as



allow potential investors direct access to this unique activity and product pipeline.

I am looking forward to sharing with you additional information in the coming quarters on this and additional progress with the execution of the new strategy and corporate structure.

I will now review a few highlights from the third quarter.

I will begin with an important announcement made by our Ag-Chemicals division. The announcement we made during this quarter was regarding a milestone we achieved in our next generation herbicide pipeline.

We proved the binding of molecule families to two novel target proteins that represent a new Mode-of-Action with biological proof demonstrated in lab assays. These next generation herbicide candidates have the potential to overcome the industry's main hurdle – growing weed resistance, with improved efficacy. We expect that these molecules will maintain a high standard of safety since they address novel target proteins not present in humans.

Moving now to our **Ag-Biologicals** division. We are in the process of incorporating this division into a separate company, earmarked for early 2019 and in line with our corporate structure strategy.

In our **Ag-Seeds** division, we are currently in the process of establishing a new strategy which we expect to be able to present in the first quarter of 2019.

Moving now to our subsidiary Biomica; Biomica recently announced the addition of internationally renowned experts in the fields of Gastroenterology and the Human Microbiome to its Scientific Advisory Board. This is an important step in the creation of the required infrastructure for Biomica's success as a stand-alone company. We believe the additions to Biomica's scientific board



will support clinical development programs and we look forward to updating you as we make progress on research and development activities.

I will now move on to our wholly owned subsidiary **Evofuel**, addressing the global demand for stable castor oil supply with an integrated ag-solution.

As I mentioned at the beginning of this call, Assaf Dotan, Evofuel's CEO will give more information on this subsidiary at the end of my comments. But before he starts I would like to give some background on this activity.

Evofuel was established in 2007 in order to develop next generation castor grains for biofuel. During these years Evofuel's mission was to provide an economic biofuel alternative in light of a high crude-oil price environment of \$80-\$100 per barrel, and it was estimated that this activity would be profitable in a crude-oil price environment of 50 dollars and up for a barrel.

To enable this, we developed unique seed varieties and proprietary growth protocols and our revenues model was built mainly on direct seed sales to farmers.

With the decrease in crude oil prices, below 50 dollars as we have seen more recently, Evofuel changed its business strategy. The first change was its target market, moving from focusing on the biofuel industry to the existing, growing castor oil market for industrial uses, such as for the automotive, health, packaging industries and many more. The second change was that rather than working in partnership with farmers and generating revenues from direct seed sales, we changed our business model to mainly focus on partnering with castor oil producers on a revenue-sharing basis from oil and other derivatives sales. These changes allow Evofuel to address a critical need - the growing global demand for stable castor oil supply for industrial uses.

In the last few years we learned that a major bottleneck in executing the new strategy was the lack of modernized harvesting in castor cultivation. As we announced during the last quarter, together with Fantini, an agricultural



equipment manufacturer from Italy, we believe that we have developed a solution for this challenge. I will let Assaf Dotan elaborate further on this topic.

In light of what I have just described, I am happy to share that Evofuel is currently in the midst of a rebranding process and we hope to shortly reveal its new name which will better reflect its new strategy.

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 diverse pipelines.

Today I would like to share some exciting developments. We have recently completed the development of the PRISM platform, which is the part of the CPB platform designed and utilized by our human therapeutic subsidiary Biomica. PRISM allows unprecedented resolution, of which microbes are in the human microbiome and what their functionality is. The last component developed in this platform was the ability to identify the impact of microbe functionality on a specific medical condition and the ability to attribute it to a specific microbe. I expect these unique capabilities will greatly accelerate Biomica's research and pipeline.

I would now like to turn the call over to Assaf Dotan, CEO of Evofuel. Asaf

Section B

Thank you Ofer.

I am happy to take part in Evogene's quarterly conference call for the first time.

My name is Assaf Dotan and I have been leading Evofuel since 2016.

As Ofer stated in his opening remarks, Evofuel's mission is to develop an ag-solution to address the growing global demand for stable castor oil supply.

The market for castor oil and its derivatives is rapidly growing and according to market publications, is expected to reach 2.3 Billion USD by 2024. Today, there are many industrial applications for castor oil, such as in the cosmetics, electronics, automotive and aerospace industries.

One of the challenges we see in the castor oil market is the unstable supply of castor grains, resulting in high price volatility of castor oil. This is an outcome of the fact that today most of the global castor supply is from India where castor is grown in traditional methods, for example the harvesting is done manually. This leads to a significant deviation in annual yield of grains, which leads to volatility in the price of castor oil.

Evofuel's approach to solve this challenge is to cultivate castor as a modernized, commercial crop in order to stabilize the yield and decrease growing costs.

In order to achieve this target, Evofuel has established a unique integrated ag-solution, which includes 2 main efforts: development of proprietary castor seed varieties, and establishment of novel agro-technical growth protocols. This now allows farmers in South America and other locations to grow castor like any other modern crop.

Evofuel's business model is mainly based on establishing partnerships with industrial oil producers to provide a stable supply of castor grains to their



factories. Our revenue model will be based on revenue sharing with such companies. In essence, in return for the stable supply of castor grains to their factories, we will receive a percentage of their revenues from the oil sales.

I am looking forward to updating you on such agreements in the near future.

I would like to add that in parallel, we will continue to generate revenue from direct castor seed sales where applicable.

As mentioned, our product offering includes proprietary castor seed varieties and targeted agro-technical growth protocols. These seed varieties and growth protocols are adapted to and targeted at localized characteristics.

Evofuel's product development leverages Evogene's technological capabilities to accelerate our breeding program in developing these unique seed varieties that have a higher oil content than common castor.

Likewise, Evofuel leverages its agro-technical know-how to work closely with partners to create targeted, localized seed growth protocols.

One of the challenges we encountered in providing growth protocols was the commercial harvesting of castor grains. So, over the last few years Evofuel has focused on developing a commercial harvesting solution adapted to Evofuel's seed varieties with partners from the agro-technical machinery industry.

As Ofer mentioned earlier, we announced this past month together with Fantini, an Italian agricultural equipment manufacturer, that we reached a breakthrough in the solution of the mechanical harvesting for castor bean plants, following significant decrease in yield losses in two consecutive year field trials in Israel.

The combination of Fantini's harvester and Evofuel's proprietary castor varieties and growth protocols, was able to significantly decrease yield losses from up to 50% with the current solutions to as low as 5%, very close to that of large scale commercial crops such as corn and soybean. We are expecting to hold semi-commercial scale field trials in the coming months with our South American partners Casa in Argentina and BioFields in Mexico.



I am very pleased by the rapid progress we achieved this past year which is a direct result of the know-how and business relationships we have cultivated over the years.

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 C

Thank you Assaf, let me begin by reviewing our balance sheet. Evogene continues to maintain a strong financial position, with approximately \$58.2 million in cash, cash related accounts and bank deposits as of September 30, 2018, which represents cash usage of approximately \$13.5 million during the first nine months of 2018 and approximately \$4.0 million dollars during the third quarter of 2018.

Our current projection for Evogene's cash burn rate for 2018 is expected to increase to the range of \$16-\$17 million, from \$14 - \$16 million, assuming the company continues to operate according to the current course of business and assuming no significant change in the Dollar/Shekel exchange rate. This increase is mainly due to a significant reduction of approximately \$1 million in the company's forecast for its financing income for the year. I will go into further detail later on.

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, as reflected in the cost of revenues. The majority of these agreements also provide for development milestone payments and royalties or other forms of revenue sharing from successfully developed products.

Gross profit for the first nine months of 2018 was approximately \$0.3 million in comparison to approximately \$0.4 million during the first nine months of 2017. Gross profit for the third quarter of 2018 was approximately \$0.1 million in comparison to approximately \$0.2 million reported for the third quarter of 2017.



Moving on, research and development expenses continue to be our single largest category of expense despite a decrease in this category. The R&D expenses for the first nine months of 2018 decreased to approximately \$10.8 million compared to approximately \$12.3 million dollars for the same period in 2017. Our R&D expenses for the third quarter of 2018 decreased to approximately \$3.9 million compared to approximately \$4.3 million dollars for the third 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 nine months of 2018 was approximately \$14.7 million, in comparison to approximately \$15.9 million in the first nine months of 2017. Operating loss for the third quarter of 2018 was approximately \$5.1 million in comparison to approximately \$5.5 million in the third quarter in 2017. The decrease in operating loss was mainly due to the decrease in R&D expenses as described above and a decrease in G&A expenses, which was partially offset by an increase in the business development expenses.

The net financing **expenses** for the first nine months of 2018 were approximately \$0.2 million in comparison to net financing **income** of approximately \$1.3 million in the corresponding period in 2017. The net financing **income** for the third quarter of 2018 was approximately \$0.3 million in comparison to net financing income of approximately \$0.5 million in the comparable quarter in 2017.

This decrease in the first nine months of 2018 is mainly due to 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 nine months of 2018 increased to approximately \$15.0 million in comparison to approximately \$14.6 million in the first nine months of 2017. Loss in the third quarter of 2018 decreased to approximately \$4.8 million compared to approximately \$5.0 million in the third quarter in 2017.



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.