

Simris Alg

Fueling up for incoming CEO to build on accelerating momentum

Magnus Brolin & Johan Widmark | 2022-04-25 08:00 | This commissioned research is for information purposes only. It is not an investment recommendation or investment advice. For more information, please see disclaimer.

On the back of 7.5 MSEK in orders in the last eight months and new CEO Julian Read taking the helm on May 16th, Simris is set to strengthen finances in a rights issue of 25 MSEK to improve production, drive additional revenue and raise gross margins. With a broadening of the B2B business offering beyond fucoxanthin into R&D and other high value bioactive substances such as active skincare, we see an upside risk to our forecast of 25 MSEK in sales in 2023 and 35 MSEK in 2024 with a positive EBITDA by 2025. Supported by only a fraction of listed peer multiples we find support for a fair value of 0.85-1.19 SEK per share in 12-24 months.

A refreshing wind of change

After 7.5 MSEK in orders during the last eight months Simris is now seeing the first fruits of the strategic transformation initiated by the Board and the final two pieces of the puzzle just about to fall into place. Julian Read, appointed new CEO effective 16th May, brings relevant experience from both sales and marketing in the cosmetics and pharmaceutical segment. Simris products are all based on precision-farmed microalgae and target a large and growing market in nutrition, skincare, and biopharma. With the improved room to manoeuvre after the rights issue, the company will target four B2B revenue streams, Novel Foods, Biomimetics, Simris and R&D-as a Service, which the Board have identified as segments with great potential.

Broaden business model with R&DaaS

The algae in Simris' farm have been refined by eleven years of natural selection which has optimized its performance and the concentration of valuable nutrients. During Q1'22 Simris has invested to strengthen R&D, with the conduction of a hot-water extraction in search for skincare actives. The actives will be evaluated and tested to develop claims, which are key to monetize the ingredients in the skincare industry. In 2019, the market for active ingredients was estimated to be worth 2.2 BN USD with a CAGR at 7% in 2019-2024E largely driven by product innovation, which Simris plans to tap into.

While most of the hard work on cost cutting has been done in 2021, the company aims to make further efficiency improvements and if Julian Read can maintain the momentum while expanding gross margin, broaden the business with a R&D-as a service and increase sales of fucoxanthin, we estimate Simris to show a positive EBITDA 2025E, but note that this estimate might prove too conservative as we see a fair chance for the new CEO to accelerate above our expectations.

25 MSEK to accelerate momentum

Subscription period for the rights issue runs from April 21th – May 5th with a subscription price of 0,32 SEK per B share, which is a deep discount from current stock price. The issue will provide the company around 21 MSEK after costs and add 97,2 million new shares including the offset issue of 18 million shares from a conversion of a 6 MSEK bridge loan, which represents a dilution of 55% for non-participating shareholders. Notably, 80% of the rights issue is covered by subscription and guarantee commitments. Should some portion of the issue end up in the hands of guarantors this would present a palpable risk of hampering the share price performance in the short term.

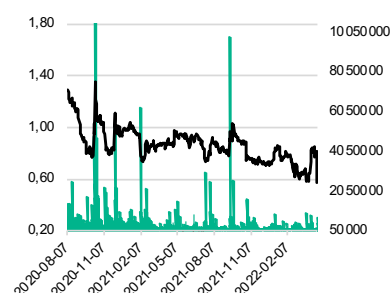
In summary, we continue to see a significant revaluation potential in Simris, and that the triggers are now starting to line up, not least the prospects of Simris announcing claims in the skincare actives segment, in addition to

Simris set for commercial acceleration in 2022
| See interview with Chairman Steven Schapera

https://www.emergers.se/simris_hv_en/

Simris Alg

Current Price, SEK	0,53
Number of Shares (M)	79
Market Cap (MSEK)	94
Net Debt (MSEK)	1
Enterprise Value (MSEK)	94
Market	First North



ramping up sales of fucoxanthin. Applying a 6x sales multiple to our forecast (derived from a fifth of the sales multiple of only listed competitor Fermentalg) we find support for a fair value of 150 MSEK in 2023 and 210 MSEK in 2024, which translates to 0.85 SEK and 1.19 SEK per share in 2023 and 2024 respectively, assuming full subscription of the rights issue.

Summary financials

MSEK	2020	2021	2022E	2023E	2024E
Sales	2	6	15	25	35
EBITDA	-21	-23	-14	-10	-4
EBIT	-24	-29	-19	-16	-10
EPS Adjusted	-0,33	-0,36	-0,11	-0,09	-0,06
Sales Growth, %	-	182%	146%	67%	40%
EBITDA Margin, %	-	-379%	-91%	-41%	-12%
EBIT Margin, %	-	-474%	-129%	-65%	-29%
EV/Sales	28,3	9,4	6,3	3,8	2,7
EV/EBITDA	-3,0	-2,5	-6,9	-9,2	-22,8
EV/EBIT	-2,6	-2,0	-4,9	-5,8	-9,2
P/E	-3,0	-2,1	-5,0	-6,0	-9,7

Source: Emergers

General disclaimer and copyright

This material is not intended to be financial advice. This material has been commissioned by the Company in question and prepared and issued by Emergers, in consideration of a fee payable by the Company. Emergers standard fees are SEK 240 000 pa for the production and broad dissemination of a detailed note following by regular update notes. Fees are paid upfront in cash without recourse. Emergers may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained herein represent those of the research analyst at Emergers at the time of publication. The company has been given the opportunity to influence factual statements before publication, but forecasts, conclusions and valuation reasoning are Emergers' own. Forward-looking information or statements contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Emergers shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained in this material.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Emergers's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in this material may not be eligible for sale in all jurisdictions or to certain categories of investors. Investors are encouraged to seek additional information as well as consult a financial advisor prior to any investment decision.

Investment in securities mentioned: Emergers has a restrictive policy relating to personal dealing and conflicts of interest. Emergers does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Emergers may have a position in any or related securities mentioned in this report, subject to Emergers' policies on personal dealing and conflicts of interest.

Copyright: Copyright 2021 Incirrata AB (Emergers)

United Kingdom

This document is prepared and provided by Emergers for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Emergers relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Emergers does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Johan Widmark | Tel: 0739196641 | Mail: johan@emergers.se