

Simris Alg

Ready to execute on a three-pronged roadmap to capture the most high-value opportunities

Johan Widmark | 2022-11-11 08:00

Following the successful acquisition of Cyano Biotech GmbH in Q3, Simris is now moving forward with a three-pronged approach to value creation. First in line is the relaunch of food supplements in the US and Sweden starting in Q4'22. Second, over the winter, Simris will conduct further trials to optimize production of Fucoxanthin and advance its B2B offering, which we expect to produce results by summer 2023. Finally, for Simris' entry into the high-value biopharma space, we see a good chance for a first evaluation agreement based on Cyano's platform for ADC payloads within our forecast horizon. All in all, we continue to find support for a fair value of SEK 170-230m in 12-24 months.

Relaunch of food supplements in Q4'22

With the structural foundation in place, Simris is now on track to exploit the three most promising verticals in the microalgae and cyanobacteria space. In December, Simris will relaunch its microalgae-based Food Supplement products. This time, however, the capsules will contain twice the EPA and DHA compared to previous products, and even so they will be half the size - which makes them easier to swallow, an important factor for consumers when making a purchase decision. They will also have more efficient packaging and a more competitive price. The launch will begin with Amazon in the USA and Simris' own web shop in Sweden before rolling out to new markets through e-commerce and pharmacies.

Three drivers for revenue growth in 2023

Over the past two years, the recently acquired Cyano Biotech had an average turnover of over EUR 0.5m and is expected to deliver an EBITDA in the region of EUR 100k in 2022. Combined with the relaunch of food supplements starting Q4 this year and a refined and expanded B2B offering in 2023, this lends support to our expectation of a sharp rise in revenues in 2023.

However, the relaunch of food supplements is likely to increase costs during launch phase Q4/Q1, while the optimized production of Fucoxanthin and new B2B business will impact revenues in Q2'23 at the earliest. Along with the lower-than-expected revenue in Q3'22, we've made a downwards revision of our sales forecast for FY 2022 and FY 2023 to SEK 6m (11) and 20m (30) respectively. In addition to the cash position at SEK 3.4m, Simris has access to a loan facility from The Brand Laboratories, a company associated with Simris' chairman, Steven Schapera of EUR 1m (SEK ~11m) and an additional SEK 1m overdraft facility with the bank.

Significant revaluation potential

One of the challenges for Simris historically has been how to allocate its limited resources to best capitalize on all the various and highly dispersed business opportunities that come with owning a world class microalgae production facility. But now we're getting a clearer view on how management plans to capture the best opportunities, with a clear plan and roadmap for each vertical, focusing on the most high-value opportunities in each field. This is also the strategy likely to produce the most value for shareholders in the long-term.

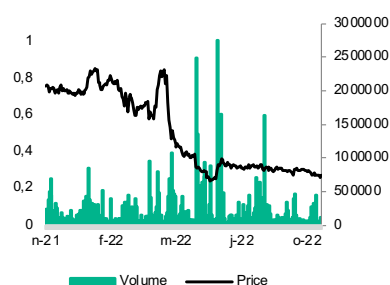
All in all, we continue to see a significant revaluation potential in Simris. With only a fraction of listed peer multiples, we find support for a fair value of SEK 170-230m in 12-24 months. This translates to 0.94 SEK and 1.28 SEK per share in 2023-2024. However, should Simris produce an ADC platform license deal this will boost potential even further.

See interview with
SIMRIS ALG CEO
Julian Read and
CYANO BIOTECH
Co-Founder Dan
Enke

https://www.youtube.com/watch?v=pl_fX21izFg

Simris Alg

Current Price, SEK	0,28
No Shares (M)	180
Market Cap (MSEK)	51
Net Debt Est. (MSEK)	-3
Enterprise Value (MSE)	47
Market	First North



MSEK	2020	2021	2022E	2023E	2024E
Sales	2	6	6	20	35
EBITDA	-21	-23	-16	-15	-7
EBIT	-24	-29	-21	-21	-13
EPS Adjusted	-0,33	-0,36	-0,12	-0,12	-0,08
Sales Growth, %	-	182%	-6%	247%	75%
EBITDA Margin, %	-	-379%	-284%	-75%	-20%
EBIT Margin, %	-	-474%	-363%	-104%	-37%
EV/Sales	28,3	9,4	8,2	2,4	1,4
EV/EBITDA	-3,0	-2,5	-2,9	-3,2	-6,6
EV/EBIT	-2,6	-2,0	-2,3	-2,3	-3,6
P/E	-3,0	-2,1	-2,4	-2,4	-3,7

Source: Emergers

The acquisition of Cyano Biotech GmbH

Cyano Biotech GmbH hold what is probably one of the world's largest libraries of cyanobacteria, comprising more than 1,100 producer strains. Having identified more than 5,000 novel, natural, compounds, the acquisition completed in Q3'22, is right in line with Simris' long-term objective to accelerate revenue generation by selling high-value, high-margin biological products to the Biopharma, Cosmetics and Nutrition industries.

In addition to accelerating Simris' entry into pharma and providing Simris with its own internal R&D capability, the acquisition is expected to deliver a number of synergies for cost efficiency.

Two-fold deal

Overall, there are two parts to the deal:

1. Payment for the ADC platform: Total max value of EUR 10.24m
 - EUR 1.0m in cash + EUR 120k in shares paid on the day of closing
 - EUR 1.0m in cash + EUR 120k in shares paid 12 months after the day of closing
 - Earn-outs paid at a rate of 10% on net revenue from sales of the ADC platform, up to a maximum of total value of EUR 8m more
2. Payment for revenue from the non-ADC business:
 - 10% of revenue from sales, through to 2025, converted quarterly into Simris shares and a quarterly basis

In relation to the earn-outs, these will only be triggered by revenue generated from the ADC platform. For example, if Simris secures a contract with a Pharma company and they pay EUR 1.0m to reserve a target antigen exclusively for a specific toxin, then Cyano Biotech's sellers will receive 10% of that value. A further 10% would be paid from any contract research project associated with the reserving of the antigen and then of any milestone payments. So, to put in context, Simris will need to make EUR 80m in sales from the ADC platform to reach the maximum cap of EUR 8m in earn-outs.

USD 1.9-2.4m implication on valuation per ADC license deal

Cyano Biotech has developed and patented a platform technology for the generation and production of novel Antibody Drug Conjugate (ADC) payloads. These are advanced treatments that can couple linkers and monoclonal antibodies (mABs) to proprietary cytotoxins in order to form ADCs that are non-toxic to healthy tissue but lethal to certain tumor cells. The strategy for the ADC platform is to make paid R&D collaboration agreements with pharma companies to jointly develop novel cancer drugs. Beyond payment for the development and optimization of a payload, Simris will receive additional payment at each major milestone e.g., successfully completing pre-clinical development, for the production of the payload in its photobioreactors, and eventually royalties on the sale of any compounds that are market approved and used in the treatment of cancer patients.

To get an idea of what this would mean for Simris we've made some broad assumptions. Benchmarked against similar licensing deals, we estimate contract research revenues for the pre-clinical stages of an ADC development project to be around EUR 1m per year, with milestone payments of EUR 1m for entry into phase I, EUR 2m for entry into phase II, EUR 3m for entry into phase III, and another EUR 5m at approval plus a 1-5% royalty fee on sales. Discounted with a WACC of 15% we get the present value (PV) of these future cash flows. We also risk adjust these PVs with the statistical probability of success of each stage of development, based on statistics for oncology development provided by the Biotechnology Innovation Organization for 2011-2020.

Based on an assumption of USD 100,000 per treatment today, 10% peak market share for a cancer indication with 80 000 patients in the 7MM (USA, Japan, France, Italy, UK, Spain, and Germany), this suggests a discounted risk-adjusted rNPV of USD 1.9m (at 1% royalty) to USD 2.4m (at 5% royalty) for each future ADC license deal, after deducting the performance related earn-out to Cyano's sellers. With 3.9m new shares (EUR 120k in shares paid to Cyano's sellers at close), this translates to 0,11-0,15 SEK per share.

rNPV model for unspecified ADC project

		Year 1 Preclin.	Year 2 Preclin.	Year 3 Phase I	Year 4-5 Phase II	Year 6-7 Phase III	Year 8 Approv.	Year 9-13 Peak Y 13	Year 14-25
Number of patients		80 000	80 000	80 000	80 000	80 000	80 000	80 000	80 000
Market share	Peak 10%							̄ 5%	̄ 5%
Patients treated								8 000	2 400
Price per treatment	USD							̄ 104 081	̄ 123 400
Sales	MUSD							866	329
Revenues									
Contract research		1	1						
Milestones				1	2	3	5		
Royalties	1%							8,7	3,3
Revenue pre earn-out		1,0	1,0	1,0	2,0	3,0	5,0	8,7	3,3
Earn-out		-0,1	-0,1	-0,1	-0,2	-0,3	-0,5	-0,9	-0,3
Revenue post earn-out		0,9	0,9	0,9	1,8	2,7	4,5	7,8	3,0
rNPV									
Discount factor	15%	1,000	0,870	0,756	0,572	0,432	0,376	0,187	0,035
PV	MUSD	0,9	0,8	0,7	̄ 1,1	̄ 0,6	1,7	̄ 0,9	̄ 0,4
Likelihood of approval	%	100,0%	50,0%	50,0%	48,8%	24,6%	47,7%	92,0%	92,0%
Accumulated LOA	%	100,0%	50,0%	25,0%	12,2%	3,0%	1,4%	1,3%	1,3%
rPV per year	MUSD	0,90	0,39	0,17	̄ 0,13	̄ 0,02	0,02	̄ 0,01	̄ 0,01
rNPV	MUSD	1,9							

̄ denotes period average. Source: Emergers

Adding to the significant revaluation potential

Cyano Biotech has been profitable since 2020, meaning the acquisition is immediately accretive to Simris, and there's good reason to believe that the patents and advanced discussions with ADC and Pharma companies will enable Simris to accelerate revenue generation in the coming years.

Combined with Simris' downstream processing capability, we expect the deal to accelerate Simris' long-awaited entry into the biopharma space. The signs are that this will comprise 1/3 of the business in the next couple of years, alongside the microalgae biomass and food supplements businesses already in scale-up phase. In the longer term, the Cyano vertical has the potential to dominate the business.

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