

Simris Alg

Transforming to build an integrated multi-vertical microalgae and cyanobacteria company

Johan Widmark | 2023-02-20 08:00

Simris' expanded objective to leverage the acquisition of Cyano Biotech in Q3'22, enter the high-value biopharma space and build a science-based vertically integrated company represents a business transformation that shows many similarities to what AAK (AAK SS, Mkt Cap 46.5 BN SEK) did in industrial fats. This is underscored by the proposed name change to Simris Group. Now the immediate focus is on cyanobacteria and the ADC space, where we see a real opportunity for large revenues in the near-term, as evidenced by the more than doubling of the share price year to date.

We continue to find support for a fair value of 170-230 MSEK, which translates to 0.94 - 1.28 SEK per share in 12-24 months and note that the additional 0.5 MEUR flexible funding facility with The Brand Laboratories has alleviated the need for external financing in the short term.

ADC a real opportunity for large revenues

Reading the Q4'22 report it is clear that the Company is highly focused on driving revenue from Cyano Biotech, adding further value to the science and sign its first licensing agreements. Interestingly, Simis' Chairman highlights that there is a very real opportunity to generate large revenues in the near term, especially in the ADC space. With that in mind we look forward to one of the leading conferences for the global ADC industry in London in March, which Simris' management will attend.

Algae as the source

In early January 2023, Simris launched its newly reformulated Omega-3 product containing both EPA and DHA, which can now be sold in the EU. This newly formulated product is EFSA-approved, highly concentrated and with a capsule that is half the size, and yet contains twice as much EPA and DHA as before. Using refill pouches, Simris also targets a substantially lower price point to encourage more consumers to make the switch to algal Omega-3. After the launch in Sweden, the plan is to launch in the USA in February and expand to other key markets in Europe later in 2023.

Drivers for revenue growth in 2023 and beyond

As the photobioreactors (PBRs) were shut down and upgraded during winter thereby putting the development work around Simris' Fucoxanthin product for B2B sale was on pause, sales in Q4 were down some 89% in Q4'22. However, in addition to Omega-3, Simris now has the structural foundation in place to exploit the most promising verticals in the microalgae and cyanobacteria space. With an historic revenue around 0.5 MEUR for Cyano Biotech, the relaunch of food supplements and a refinement and expansion of the B2B offering later in 2023, we find support for a sharp rise in revenues later in the year.

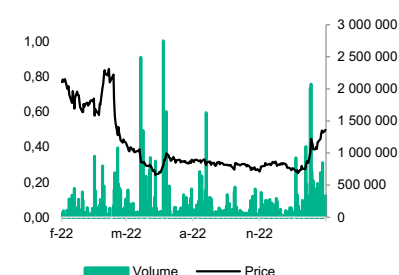
As we've pointed out earlier, the relaunch of food supplements is likely to increase costs during launch phase, while the optimized production of Fucoxanthin and new B2B business will impact revenues starting H2'23. However, the announcement of an increase by 0.5 MEUR of the flexible funding facility from The Brand Laboratories, a company associated with Simris' Chairman, Steven Schapera, to a total of 1.5 MEUR means that the short-term funding should be covered.

Significant revaluation potential

In our model we forecast Simris to reach positive EBITDA no sooner than 2025. But in somewhere between a base case and a best case-scenario, the positive

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| | |
|-------------------------|-------------|
| Current Price, SEK | 0,50 |
| Number of Shares (M) | 180 |
| Market Cap (MSEK) | 91 |
| Net Debt Est. (MSEK) | -4 |
| Enterprise Value (MSEK) | 87 |
| Market | First North |



momentum in the share, along with a successful launch of Omega-3 and the B2B sales should give the company runway to reach a stronger position before financing becomes an issue. With a clear plan and roadmap for each vertical, focusing on the most high-value opportunities in each field, management is now executing on a strategy that is likely to produce 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 continue to 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, before adjustment for any potential rights issue. However, should Simris produce an ADC platform license deal this will boost potential even further.

| MSEK | 2021 | 2022 | 2023E | 2024E | 2025E |
|------------------|-------|-------|-------|-------|-------|
| Sales | 6 | 4 | 20 | 35 | 46 |
| EBITDA | -23 | -18 | -15 | -7 | 0 |
| EBIT | -29 | -25 | -23 | -16 | -8 |
| EPS Adjusted | -0,36 | -0,14 | -0,14 | -0,09 | -0,05 |
| Sales Growth, % | 182% | -33% | 390% | 75% | 30% |
| EBITDA Margin, % | -379% | -441% | -75% | -20% | 1% |
| EBIT Margin, % | -474% | -604% | -117% | -45% | -18% |
| EV/Sales | 9,4 | 11,0 | 4,3 | 2,5 | 1,9 |
| EV/EBITDA | -2,5 | -2,5 | -5,8 | -12,1 | 174,8 |
| EV/EBIT | -2,0 | -1,8 | -3,7 | -5,5 | -10,4 |
| P/E | -2,1 | -2,0 | -3,7 | -5,4 | -9,6 |

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.

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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