

Simris Group

Lonza partnership brings ADC platform license deal closer

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The strategic partnership with Lonza puts Simris in a stronger position going forward as it both validates Simris IP in the high value Antibody-Drug Conjugate (ADC) space and moves the company closer to licensing deals, where we see opportunities for large revenues even in the short term. Encouraged by the deal, we continue to find support for a fair value of SEK 170-230m, which translates to SEK 0.94-1.28 per share in 12-24 months.

Lonza partnership validating Simris ADC platform

What started with the acquisition of Cyano Biotech GmbH (now Simris Biologics GmbH), bringing an ADC-payload platform with it, Simris has now taken the next step in pursuing the highest value verticals in the microalgae and cyanobacteria space. The partnership deal means that Lonza Ltd will become Simris' Contract Development & Manufacturing Organization (CDMO) with global and exclusive rights to promote its ADC technology to biopharmaceutical companies. Lonza will integrate Simris' ADC payload platform into its Bioconjugation Toolbox and offer the tech to customers seeking payloads to develop ADC medicine. Whilst Lonza will introduce Simris' ADC payload technology to drug development companies any license deal will be directly between Simris and the drug developer. Due to the high value of such licensing deals within the fast-growing segment of ADC medicines, we see as a strong validation that is Simris moving in the right direction.

Forecasting a sharp rise in revenues

ADC medicines have been recognized as effective, stable and reliable cancer therapeutics, and in 2022 alone, over 210 clinical trials involving ADCs were initiated. Strengthened by the Lonza partnership, there are highlights to look out for also in the shorter term. Simris' new Omega-3 product is about to launch in the US on Amazon platform providing a platform for near term revenue. The photobioreactors were shut down and upgraded during the winter, putting the development work around Simris' Fucoxanthin product for B2B sale on pause. Now that they are again up and running again we expect the refined and expanded B2B-offering, will enable Simris to grow topline substantially in the second half of the year.

Positive momentum, with significant further upside potential

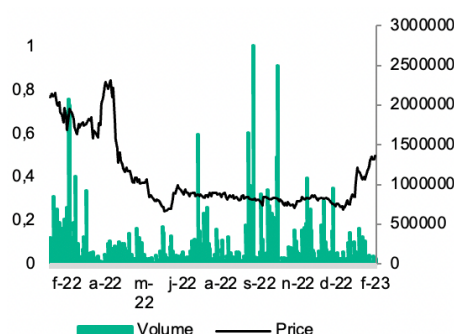
With a strong structural foundation in place and a clear strategy with a distinct roadmap for each of the verticals, we believe Simris is well positioned for an eventful year ahead. Based on a fraction of listed peer multiples, we continue to find support for a fair value of SEK 170-230m in 12-24 months, which translates to SEK 0.94-1.28 per share. We also note that an ADC platform licensing deal would boost potential further, and that big steps towards that end is now being taken.

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

Simris Group

Current Price, SEK	0,60
Number of Shares (M)	180
Market Cap (MSEK)	108
Net Debt Est. (MSEK)	-4
Enterprise Value (MSEK)	104
Market	First North



Cyano Biotech GmbH (now Simris Biologics GmbH)

Simris Biologics holds what is probably one of the world's largest libraries of cyanobacteria, comprising more than 1,200 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

Simris Biologics 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 license agreements and 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 7 major markets? (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	Year 2	Year 3	Year 4-5	Year 6-7	Year 8	Year 9-13	Year 14-25
		Preclin.	Preclin.	Phase I	Phase II	Phase III	Approv.	Peak Y 13	
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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