

M&A-activity in the accelerating microalgae space reveal tenbagger revaluation potential for Simris

Public and investor interest in the microalgae space has surged in the last decade, now registering all-time highs. With its vertically integrated, microalgae platform and a new CEO underway, Simris Alg is on track to capitalise on the growing demand from the nutritional, cosmeceutical and pharma industries. International M&A-activity however reflect a vastly more generous view on the industry than local investors attribute to Simris, but with a little more commercial traction this may soon change.

Investor interest in microalgae picking up pace

For decades, the most interesting and tantalising possibility with algae and microalgae has centered around biofuels. But so far, algae biofuel projects have failed to deliver at scale, while the unique characteristics of microalgae, in recent years, have attracted the attention of other, more refined industries. Today, microalgae are accepted as potential alternatives to proteins. Others reckon they can replace plastics. There is also a vivid interest in the unique properties of microalgae from the cosmeceutical industry, and in the horizon looms some highly advanced applications in the pharma industry.

This has not gone unnoticed by the investor community. And while most companies in the microalgae field are privately held, they have registered an accelerating media attention, peaking at 155 articles about microalgae companies in June 2021 alone, up from 5-10 articles per month only five years ago.

According to market intelligence firm CB Insights, the global microalgae industry has attracted well over 100 MUSD in VC financing in the past five years, not to mention the M&A-activity that looking back over the past decade ranges into several hundreds of million EUR. And while many of these firms have microalgae products in commercial phase, the whole microalgae market can still be considered to be in its infancy, as various market research firms estimate the total global market to be less than 1 BN USD (excluding biofuels). This number implies that no single player has yet achieved any superior advantage. By 2028, market research firm [Meticulous Research, expect the global microalgae market to amount to 1,8 BN USD](#), representing a 10,8% CAGR in 2021-2028.

Apart from Simris, there is only one other listed peer focused on microalgae, French Fermentalg. While the IPO was oversubscribed by 4,5x back in 2014, the share price performance has been disappointing, down by two thirds. In the last year however, the Fermentalg stock has had a revival, now trebled since the covid trough.

Simris a unique opportunity for investors

According to international cosmetics veteran Steven Schapera, who is a longstanding entrepreneur and investor in this field with deep insight into Simris' target markets (who also joined the company as Chairman in spring 2021 and as second largest shareholder already in mid-2020), none of Simris' international peers can match Simris in terms of production and platform quality.

In February 2021, Simris presented a new three-pronged business focus, with BIOMIMETICS that offers the company's biotech algae platform for discovery and production of various types of active substances for advanced skin care and pharmaceuticals, and NOVEL FOODS which focuses on foods and alternative proteins, in addition to the omega-3 supplements already on the market. This new setup, along with the first B2B-order of partially processed microalgae biomass announced this summer, marks the first important steps in Simris' transition to a vertically integrated B2B-focused microalgae biotech at the forefront of the emerging marine microalgae market.

In terms of drivers for a revaluation, the announcement of new B2B deals will be key. We also see that the next CEO will play a vital role in capitalizing on Simris' unique platform, although the company has yet to present the successor of Simris' former CEO and founder, the algae pioneer Fredrika Gullfot.

In terms of using peers as guidance for valuation, the Fermentalg 95 MEUR market capitalization supported by revenues of only 2.2 MEUR in 2020, clearly illustrate how foreign investors are willing to pay for exposure to the microalgae market. This has not been the case for Simris, most likely due to a failure to properly commercialize its platform causing an overemphasis on the short-term sales development of the omega-3 product line. The B2B focus however, offer considerably better volume leverage potential. A little more commercial traction could potentially unlock the risk appetite seen among international microalgae investors. While near term sales development is hard to assess, this could, long term put Simris on par with Fermentalg, which from Simris' current 65 MSEK market cap, would represent a 10x revaluation.

All in all, we continue to see a high but difficult-to-quantify potential for the stock, supported by international investor activity and peer valuations, new management underway and the ongoing shift in focus to B2B. At the same time, we see considerable risks associated with execution, commercialization and financing, although we expect the latter to be addressed in some sort of capital raise, soon after a new CEO takes the helm, to finance scale-up in 2022.

Read research article here https://www.emergers.se/simris_g_en/

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