

Legit greenwashing for dirty industrials with Sofi's next level microfiltration

The problem with industrial wastewater has grown, as political and public forces demand better care of natural resources. Loudspring's portfolio company Sofi Filtration's patented technique can filter water from contaminants without chemicals better than other systems on the market, with cleaner water as a result. With reinforced financials Sofi now stand on the brink of rolling out on a global scale in a multibillion-dollar industry, where relevant peers enjoy elevated valuations.

The scarcity of clean freshwater is today a growing problem in many parts of the world. With ever-stricter environmental regulations, the need to care for water has increased, and the cost of water itself has risen as a consequence of that. There is therefore a growing demand for a better way to reuse and recycle water used in various industries, since traditional methods such as settling can't handle the small size of the particles that needs to be separated from the water.

Sofi's filters offer a new way of doing this. With their patented self-cleaning technology, they aim to take microfiltration to the next level. The usage of long-lived elements with no moving parts and no disposable filters will ensure an automatic process with low energy consumption and very little manual interaction. The system enables customers to cut their water related costs to only a fraction of what they are today.

– Sofi's filters can be used in a number of industries where water is used and polluted but is best suited for heavy industrial sectors such as mining, steel and oil & gas where Sofi's technology can filter large water streams with great result. The fact that our filters use a patented mechanical cleaning process, without chemicals, puts us in a unique position where there is very little competition, says Ville Hakala, CEO of Sofi Filtration.

2020 was a rather dramatic year all over the world with significant negative effects for a lot of industries. Sofi was severely impacted by the pandemic as both existing and potential new customer deliveries was postponed. Halfway through 2021 things are already looking brighter. As Sofi has experienced a higher demand of their filtration technique since their project pipeline was rebuilt, we believe that Sofi steadily can expand the number of systems sold once the first crucial ones have reached the market. Company projections of single orders worth around 1 MEUR each support a target revenue estimate of around 10 MEUR in 36 months.

Sofi's business model revolves primarily around selling capital goods, but also include recurring revenue from remote monitoring and control & service. Sofi intends to primarily deal directly with the end customer and channel-to-markets partners such as system integrators, aiming to establish a significant presence in the European and North American market. A comparison with relevant industry peers suggests a profitability around an EBIT-margin of around 15%. While these companies are more mature than Sofi, this level of profitability should be achievable at the 36 month revenue target.

– With the 3 MEUR funding we secured in October 2020 we have the financial firepower to meet the rising demand that the first half of the year has shown us exist out there. The oil & gas industry in the US, where the usage of old technique such as disposable sock filters are common, has a great need for new and better ways to handle the problem that is water filtration. We have also taken steps to establish ourselves in the steel industry where sand filters are the most common way to deal with the issue, but this is also an old technique that is not efficient enough. We have already installed our products in two Italian steel factories, and we have initiated pilot projects in Finland and Spain, says Ville Hakala.

With a growing order book, Sofi is on track to beat last year's revenue, but also the revenue of the latest "normal year", 2019 at 1,6 MEUR.

– We are confident that our technology is a force to be reckoned with in the coming years. As the importance of a sustainable use of water continues to grow, so will the demand for products and services that help industries to do that, says Ville Hakala.

According to market research firm Verified Market Research, the market for industrial wastewater treatments was valued at 12,5 billion USD in 2020 and should reach 18,1 billion USD in 2028, representing a CAGR of 6,4% in that time. Looking at relevant industry peers, Ecolab is the most comparable public company with a market cap at 61 billion USD, which corresponds to a valuation of 5,7x EV/Sales and 33x EV/EBITDA. Although Ecolab is a few years ahead of Sofi and has a global reach, it provides a fair read-across for the valuation potential of a future, more mature Sofi. A revenue estimate of 10 MEUR and a 15% EBIT-margin three years from now, indicate a future target value of around 50 MEUR. This would give Loudsprings 20,8% stake in Sofi a future value of around 10 MEUR.

All in all, this adds up to a bright looking future for Sofi. There are many underlying forces that speaks for this kind of product that offer traditionally dirty industries a chance to become clean. Although the demand for mining products, steel and oil & gas might fade in the future, Sofi can take comfort in the fact that the solution is not locked to those industries specifically, but applicable to close to any type of water cleaning process.

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Contact

Johan Widmark
johan@emergers.se



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