

FARON PHARMACEUTICALS

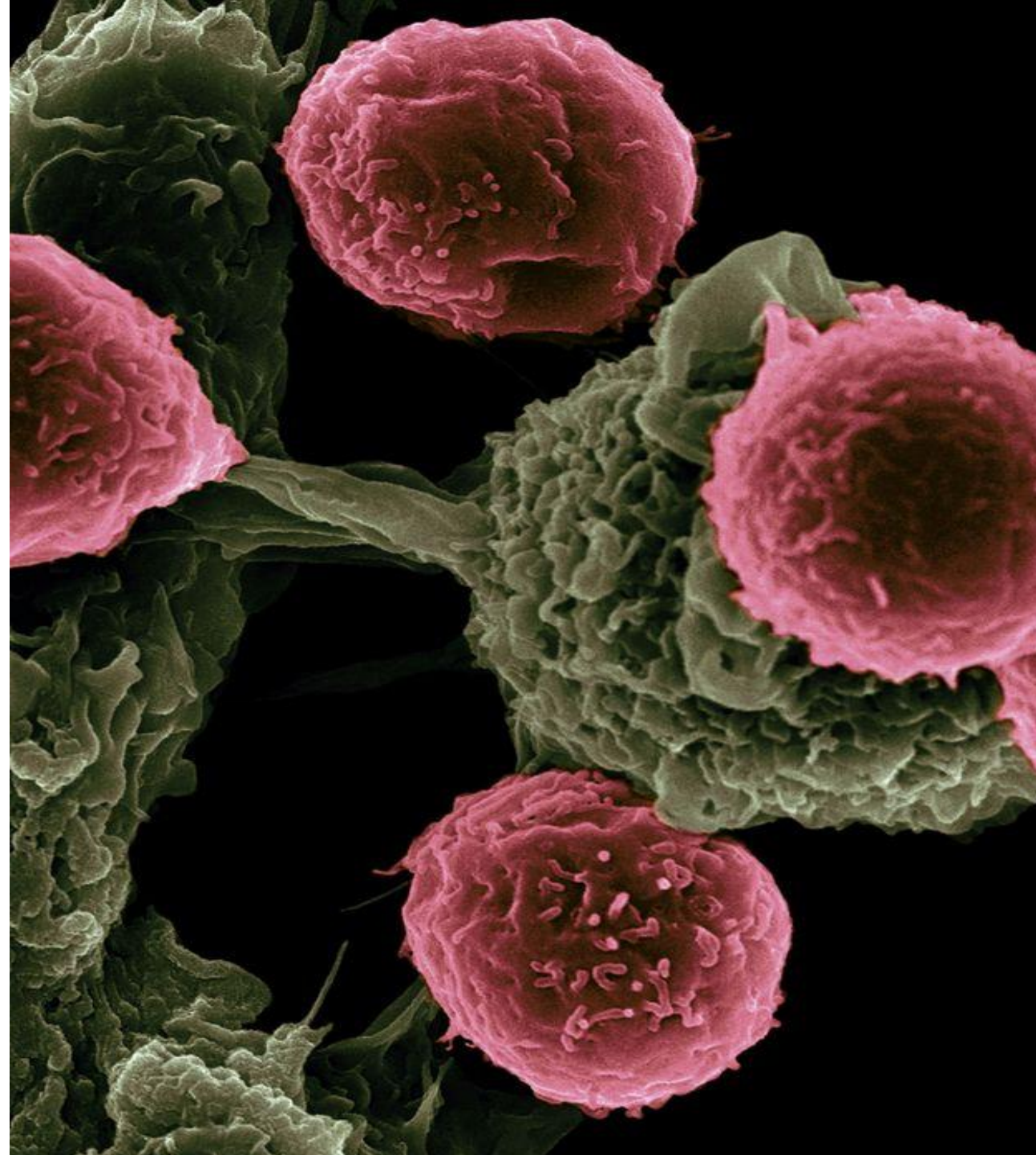
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INDERES CORPORATE CUSTOMER
COMPANY REPORT



Big picture of BEXMAB results starting to take shape

Faron published data on the results of the BEXMAB trial. The release was somewhat limited in scope. More detailed results will be published in the coming weeks in connection with scientific conferences, after which a more detailed evaluation of the trial results will be possible. The treatment responses were still at a good level, which supports the transition to the pivotal phase (Phase III) of the trial and supports the share value. We raise our target price to EUR 3.2 and reiterate our Accumulate recommendation

Treatment responses in late-stage MDS patients were now fully analyzed for the first time

According to Faron, all enrolled late-stage MDS patients (r/r MDS) were analyzed in the topline readout. The results now included the overall response rate (ORR), which was 63%. In the previous readout, the response rate was 80%, so the most recently enrolled patients have decreased the figure somewhat. The response rate may still increase as treatments continue, as responses sometimes come with a delay. Overall, we believe 63% is a good result and supports the transition of the trial to the pivotal phase (Phase III). However, the quality of the responses is of key importance, and no data on them was obtained in connection with this release. Moving to the pivotal stage requires a statement from the FDA and securing financing. The combination of bexmarilimab and azacitidine was well tolerated, which was not surprising, as there is already plenty of data on bexmarilimab's favorable safety profile. Overall, the results were reported concisely, so drawing high-quality conclusions from the readout will have to wait for future news. More detailed results are expected at the ASCO Annual Meeting (American Society of Clinical Oncology). The meeting will be held on May 30–June 3, and we believe that investors will also be given more detailed information on the results.

Preliminary treatment responses in first-line patients also promising

Faron also reported treatment responses in first-line patients to the combination of bexmarilimab and azacitidine. These patients have been recently diagnosed with MDS and have not received prior treatment, so response rates are inherently higher than in late-stage patients. The response rate for the first 20 or so patients was 76%, which can also be considered a good result. We would like to remind you that the trial is in an early stage in this respect and the time for more detailed conclusions is later.

We are increasing the probability of trial success and adding the convertible bond to our model

Our estimate for the probability of success for Faron's Phase II has been 80%. We are now raising our estimates based on 90% trial progress and clarification of the financial position.

Faron recently agreed on a 35 MEUR convertible bond, which ensures sufficient funding until at least Q1'26. Faron's management commented on the arrangement in our interview (in Finnish). An initial tranche of 15 MEUR was drawn down, which was mainly used to repay a previous IPF loan. We assume that the loan will be drawn in full and that it will be repaid in shares. We assume a conversion price of EUR 2.94. With these assumptions, the number of shares will increase by 11.9 million, or 10.6%. The conversion price may end up being even lower, which would mean a larger increase in the number of shares.

Valuation is still attractive

Based on our DCF model, the share value is EUR 3.2. The increase is based on raising the probability of success of the trial. The stock is highly valued relative to its Nordic peers. We believe that the valuation premium is justified based on Faron's potential to move quickly towards commercialization, including in first-line MDS, and the potentially large number of indications. Solid tumors bring longer-term potential.

Recommendation

Accumulate

(was Accumulate)

Target price:

EUR 3.20

(was EUR 2.80)

Share price:

EUR 2.70

Business risk



Valuation risk



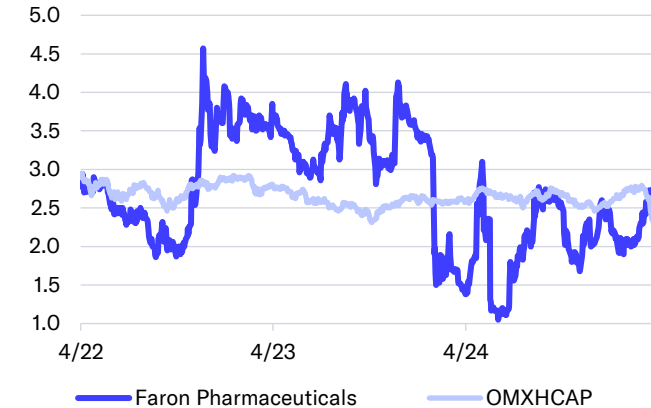
	2024	2025e	2026e	2027e
Revenue	0.0	0.0	0.0	4.6
growth-%	0%	0%	0%	113896%
EBIT adj.	-18.7	-18.9	-30.5	-26.6
PTP	-26.0	-22.0	-33.9	-30.4
EPS (adj.)	-0.25	-0.20	-0.29	-0.25
Dividend	0.00	0.00	0.00	0.00
P/E (adj.)	neg.	neg.	neg.	neg.
P/B	neg.	neg.	neg.	neg.
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	neg.	neg.	neg.
EV/EBITDA	neg.	neg.	neg.	neg.
EV/S	>100	>100	>100	80.6

Source: Inderes

Guidance

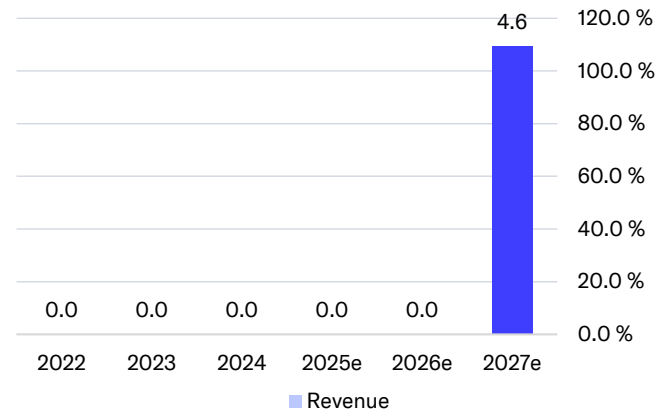
Faron does not provide any guidance

Share price



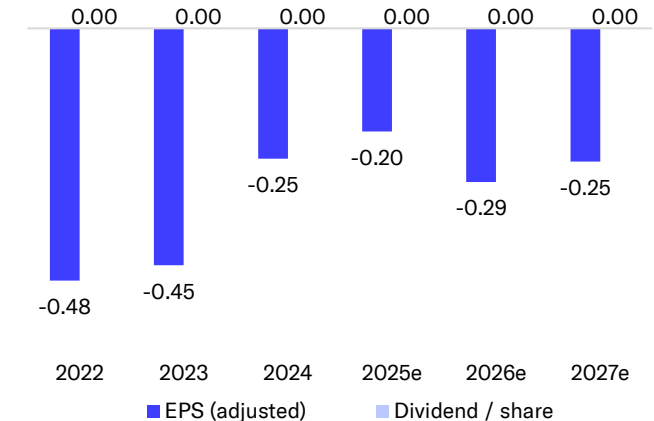
Source: Millistream Market Data AB

Revenue and EBIT-% (adj.)



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- High need for new cancer drugs
- Target market is estimated to grow to USD 169 billion by 2032 (CAGR 16.4 %)
- Very defensive sector
- Possibility of globally sold drugs whose annual revenue potential is calculated in billions and Faron's cash flow in hundreds of millions
- Potential can also materialize through a cooperation agreement or acquisition

Risk factors

- Drug development requires substantial front-loaded investments
- Failed drug development is likely to result in permanent loss of invested capital
- Success depends on the safety and efficacy of drug candidates, which may prove insufficient in studies
- If market entry is successful, the market share, sales price and royalties involve uncertainties
- The financing situation in the sector is challenging

Valuation	2025e	2026e	2027e
Share price	2.70	2.70	2.70
Number of shares, millions	112.3	116.3	120.2
Market cap	303	314	325
EV	302	337	368
P/E (adj.)	neg.	neg.	neg.
P/E	neg.	neg.	neg.
P/B	neg.	neg.	neg.
P/S	>100	>100	71.2
EV/Sales	>100	>100	80.6
EV/EBITDA	neg.	neg.	neg.
EV/EBIT (adj.)	neg.	neg.	neg.
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Valuation table

Valuation		2021	2022	2023	2024	2025e	2026e	2027e	2028e
Share price	2.91	3.24	3.71	3.77	2.24	2.70	2.70	2.70	2.70
Number of shares, millions	46.9	53.2	59.8	68.8	104.6	112.3	116.3	120.2	123.5
Market cap	136	172	222	259	234	303	314	325	333
EV	135	169	228	265	237	302	337	368	387
P/E (adj.)	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.
P/E	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.
P/B	neg.	58.8	neg.	neg.	neg.	neg.	neg.	neg.	neg.
P/S	>100	>100	>100	>100	>100	>100	>100	71.2	34.8
EV/Sales	>100	>100	>100	>100	>100	>100	>100	80.6	40.3
EV/EBITDA	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.
EV/EBIT (adj.)	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes

Income statement

Income statement	H1'23	H2'23	2023	H1'24	H2'24	2024	H1'25e	H2'25e	2025e	2026e	2027e	2028e
Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.6	9.6
EBITDA	-12.6	-15.6	-28.2	-11.1	-7.2	-18.3	-7.3	-11.4	-18.7	-30.2	-26.4	-21.1
Depreciation	-0.2	-0.2	-0.3	-0.2	-0.2	-0.4	-0.1	-0.1	-0.2	-0.3	-0.2	-0.2
EBIT (excl. NRI)	-12.8	-15.8	-28.6	-11.3	-7.4	-18.7	-7.4	-11.5	-18.9	-30.5	-26.6	-21.2
EBIT	-12.8	-15.8	-28.6	-11.3	-7.4	-18.7	-7.4	-11.5	-18.9	-30.5	-26.6	-21.2
Share of profits in assoc. compan.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial items	-0.9	-1.5	-2.4	-3.1	-4.2	-7.3	-2.5	-0.6	-3.1	-3.4	-3.8	0.0
PTP	-13.7	-17.2	-30.9	-14.4	-11.6	-26.0	-9.9	-12.1	-22.0	-33.9	-30.4	-21.2
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	-13.7	-17.2	-30.9	-14.4	-11.5	-25.9	-9.9	-12.1	-22.0	-33.9	-30.4	-21.2
EPS (adj.)	-0.20	-0.25	-0.45	-0.14	-0.11	-0.25	-0.09	-0.11	-0.20	-0.29	-0.25	-0.17
EPS (rep.)	-0.20	-0.25	-0.45	-0.14	-0.11	-0.25	-0.09	-0.11	-0.20	-0.29	-0.25	-0.17

Source: Inderes

Balance sheet

Assets	2023	2024	2025e	2026e	2027e
Non-current assets	1.3	1.5	1.3	1.1	0.9
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	1.1	1.6	1.5	1.2	1.0
Tangible assets	0.2	-0.1	-0.2	-0.1	0.0
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Current assets	8.9	11.1	18.4	9.7	9.5
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	2.1	1.6	2.5	2.5	2.5
Cash and equivalents	6.9	9.5	15.9	7.2	7.0
Balance sheet total	10.2	12.5	19.7	10.8	10.4

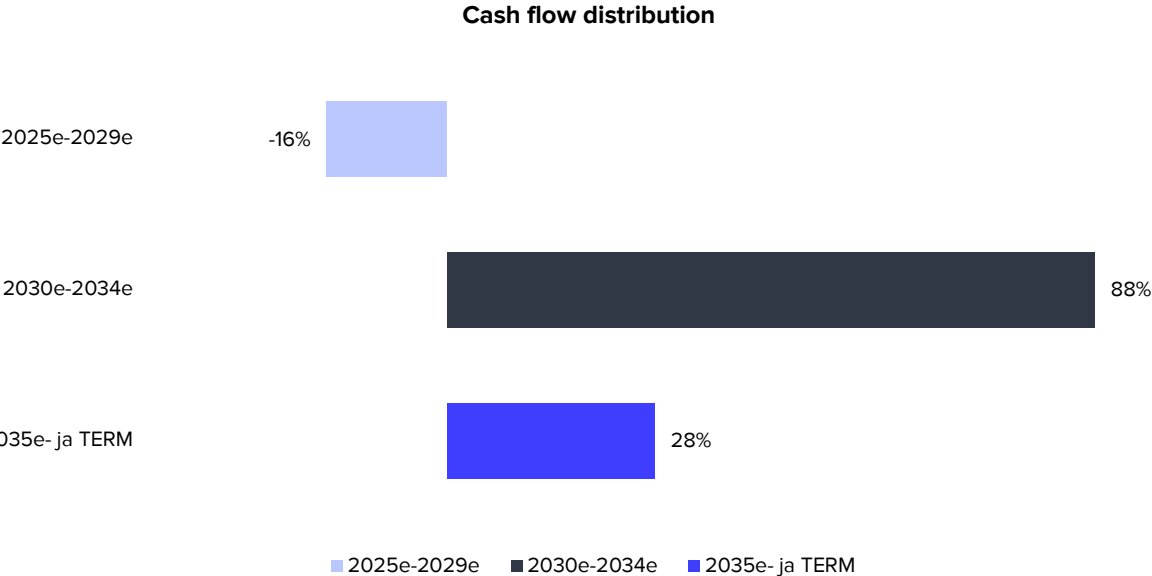
Source: Inderes

Liabilities & equity	2023	2024	2025e	2026e	2027e
Equity	-15.2	-9.8	-4.8	-28.7	-49.1
Share capital	2.7	2.7	2.7	2.7	2.7
Retained earnings	-172.2	-197.4	-219.4	-253.3	-283.7
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	154	185	212	222	232
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	10.4	12.1	15.5	30.5	46.0
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	9.4	8.1	0.0	0.0	25.5
Convertibles	0.0	0.0	15.0	30.0	20.0
Other long-term liabilities	0.9	4.0	0.5	0.5	0.5
Current liabilities	15.0	10.2	9.0	9.0	13.5
Interest bearing debt	3.5	3.7	0.0	0.0	4.5
Payables	11.5	6.4	9.0	9.0	9.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	10.2	12.5	19.7	10.8	10.4

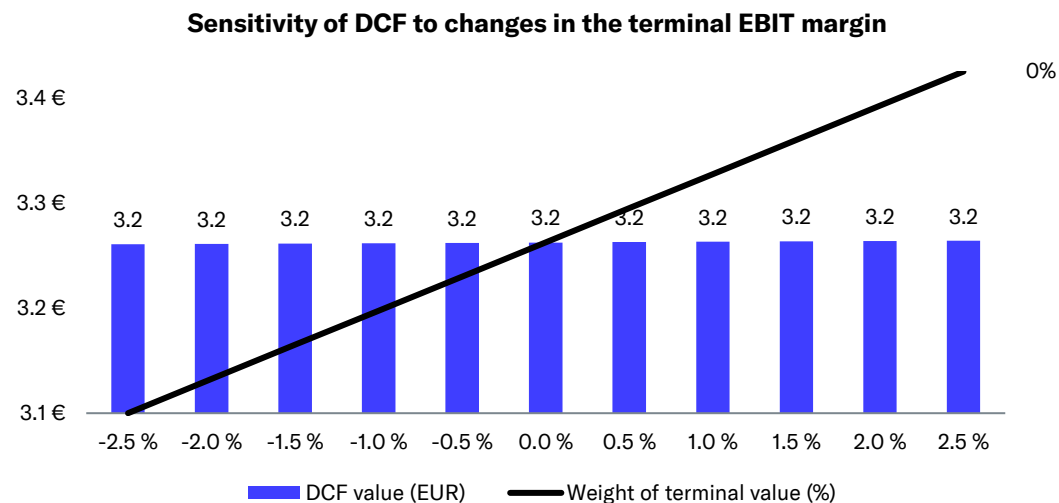
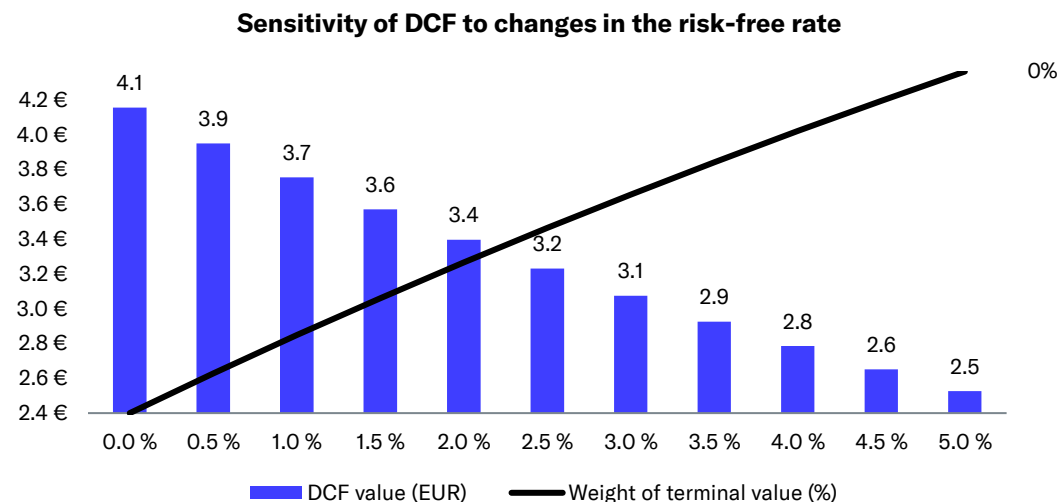
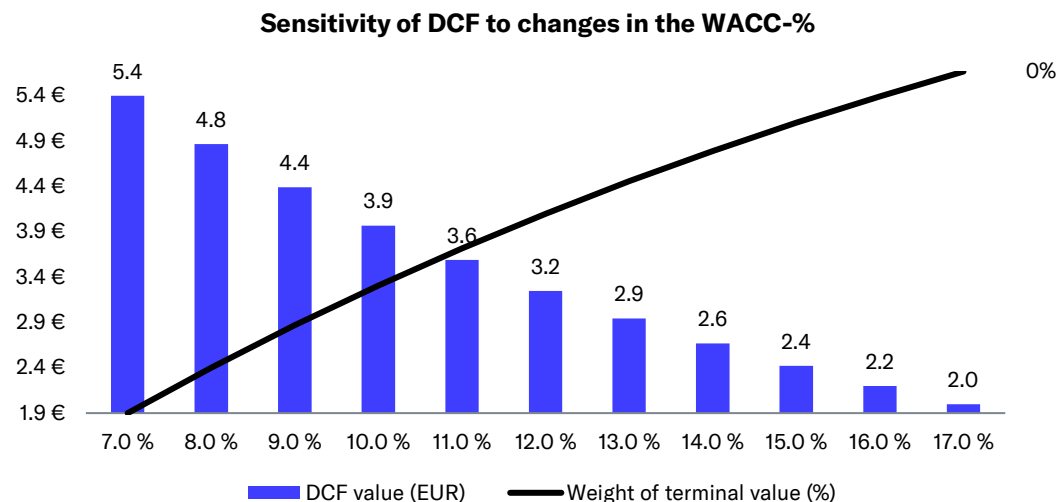
DCF-calculation

DCF model	2024	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	2036e	2037e	2038e	2039e	2040e	2041e	TERM
Revenue growth-%	NA	NA	NA	NA	110.1 %	109.8 %	124.8 %	57.2 %	105.4 %	31.7 %	31.4 %	7.8 %	7.6 %	6.1 %	-41.3 %	-45.2 %	-39.5 %	0.0 %	-100.0 %
EBIT-%	NA	NA	NA	NA	-221.7 %	10.2 %	59.3 %	72.5 %	86.6 %	89.1 %	91.5 %	91.8 %	92.2 %	92.5 %	86.6 %	74.8 %	57.4 %	0.0 %	0.0 %
EBIT (operating profit)	-18.7	-18.9	-30.5	-26.6	-21.2	2.0	26.8	51.5	126	171	231	250	270	287	158	74.7	34.7	0.0	
+ Depreciation	0.4	0.2	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
- Paid taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-10.3	-25.3	-34.3	-46.2	-50.0	-54.0	-57.4	-31.5	-14.9	-6.9	0.0	
- Tax, financial expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-4.6	1.6	0.0	0.0	1.1	-0.6	-1.4	-0.2	-3.7	-2.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Operating cash flow	-22.8	-17.1	-30.2	-26.4	-20.0	1.6	25.6	41.1	97.4	135	186	200	216	230	126	59.8	27.8	0.1	
+ Change in other long-term liabilities	3.1	-3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	0.0	0.0	0.0	
- Gross CAPEX	-0.6	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	
Free operating cash flow	-20.3	-20.6	-30.3	-26.5	-20.0	1.6	25.5	41.1	97.4	135	186	200	216	230	126	59.7	27.7	0.0	
+/- Other	34.7	27.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	14.3	6.4	-10.3	-26.5	-20.0	1.6	25.5	41.1	97.4	135	186	200	216	230	126	59.7	27.7	0.0	0.4
Discounted FCFF		5.9	-8.5	-19.5	-13.2	0.9	13.4	19.2	40.6	50.2	61.7	59.4	57.3	54.4	26.6	11.3	4.7	0.0	0.1
Sum of FCFF present value		364	359	367	386	400	399	385	366	326	275	214	154	96.9	42.6	16.0	4.7	0.1	0.1
Enterprise value DCF		364																	
- Interest bearing debt		-11.8																	
+ Cash and cash equivalents		9.5																	
-Minorities		0.0																	
-Dividend/capital return		0.0																	
Equity value DCF		362																	
Equity value DCF per share		3.2																	

WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	0.0 %
Cost of debt	10.0 %
Equity Beta	1.58
Market risk premium	4.75%
Liquidity premium	2.00%
Risk free interest rate	2.5 %
Cost of equity	12.0 %
Weighted average cost of capital (WACC)	12.0 %



DCF sensitivity calculations and key assumptions in graphs



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2022	2023	2024	2025e	2026e	Per share data	2022	2023	2024	2025e	2026e
Revenue	0.0	0.0	0.0	0.0	0.0	EPS (reported)	-0.48	-0.45	-0.25	-0.20	-0.29
EBITDA	-27.4	-28.2	-18.3	-18.7	-30.2	EPS (adj.)	-0.48	-0.45	-0.25	-0.20	-0.29
EBIT	-27.4	-28.6	-18.7	-18.9	-30.5	OCF / share	-0.39	-0.36	-0.22	-0.15	-0.26
PTP	-28.7	-30.9	-26.0	-22.0	-33.9	OFCF / share	-0.38	0.01	0.14	0.06	-0.09
Net Income	-28.6	-30.9	-25.9	-22.0	-33.9	Book value / share	-0.19	-0.22	-0.09	-0.04	-0.25
Extraordinary items	0.0	0.0	0.0	0.0	0.0	Dividend / share	0.00	0.00	0.00	0.00	0.00
Balance sheet	2022	2023	2024	2025e	2026e	Growth and profitability	2022	2023	2024	2025e	2026e
Balance sheet total	11.3	10.2	12.5	19.7	10.8	Revenue growth-%	0%	0%	0%	0%	0%
Equity capital	-11.5	-15.2	-9.8	-4.8	-28.7	EBITDA growth-%	32%	3%	-35%	2%	62%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	30%	4%	-35%	1%	62%
Net debt	6.0	6.0	2.3	-0.9	22.8	EPS (adj.) growth-%	20%	-6%	-45%	-21%	49%
Cash flow	2022	2023	2024	2025e	2026e						
EBITDA	-27.4	-28.2	-18.3	-18.7	-30.2						
Change in working capital	4.3	3.7	-4.6	1.6	0.0						
Operating cash flow	-23.1	-24.6	-22.8	-17.1	-30.2						
CAPEX	-0.4	-0.2	-0.6	-0.1	-0.1						
Free cash flow	-22.5	0.8	14.3	6.4	-10.3						
Valuation multiples	2022	2023	2024	2025e	2026e						
EV/S	>100	>100	>100	>100	>100						
EV/EBITDA	neg.	neg.	neg.	neg.	neg.						
EV/EBIT (adj.)	neg.	neg.	neg.	neg.	neg.						
P/E (adj.)	neg.	neg.	neg.	neg.	neg.						
P/B	neg.	neg.	neg.	neg.	neg.						
Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %						

Source: Inderes

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Inderes' recommendation policy is based on the following distribution relative to the 12-month risk-adjusted expected total shareholder return.

Buy	The 12-month risk-adjusted expected shareholder return of the share is very attractive
Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

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Inderes has made an agreement with the issuer and target of this report, which entails compiling a research report.

Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
8/8/2022	Accumulate	2.80 €	2.44 €
8/26/2022	Accumulate	2.80 €	2.22 €
10/17/2022	Accumulate	2.50 €	1.97 €
1/10/2023	Reduce	3.00 €	3.71 €
3/6/2023	Reduce	3.00 €	3.74 €
4/18/2023	Reduce	3.60 €	3.85 €
8/30/2023	Accumulate	4.00 €	3.64 €
11/14/2023	Accumulate	3.50 €	3.00 €
12/22/2023	Reduce	3.50 €	3.69 €
3/4/2024	Reduce	2.00 €	1.89 €
3/14/2024	Reduce	2.00 €	1.85 €
5/23/2024	Reduce	2.40 €	2.78 €
6/5/2024	Buy	2.00 €	1.31 €
7/30/2024	Accumulate	2.50 €	1.95 €
8/29/2024	Accumulate	2.80 €	2.39 €
12/11/2024	Accumulate	2.80 €	2.24 €
2/28/2025	Accumulate	2.80 €	2.03 €
4/15/2025	Accumulate	3.20 €	2.70 €



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Inderes operates in Finland, Sweden, Norway, and Denmark and is listed on the Nasdaq First North Growth Market.

Inderes was created by investors, for investors.

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