FARON PHARMACEUTICALS

10/23/2025 20:10 EEST

This is a translated version of the ”Kurssilasku tarjoilee tilaisuuden lisätä” report, published on 10/24/2025

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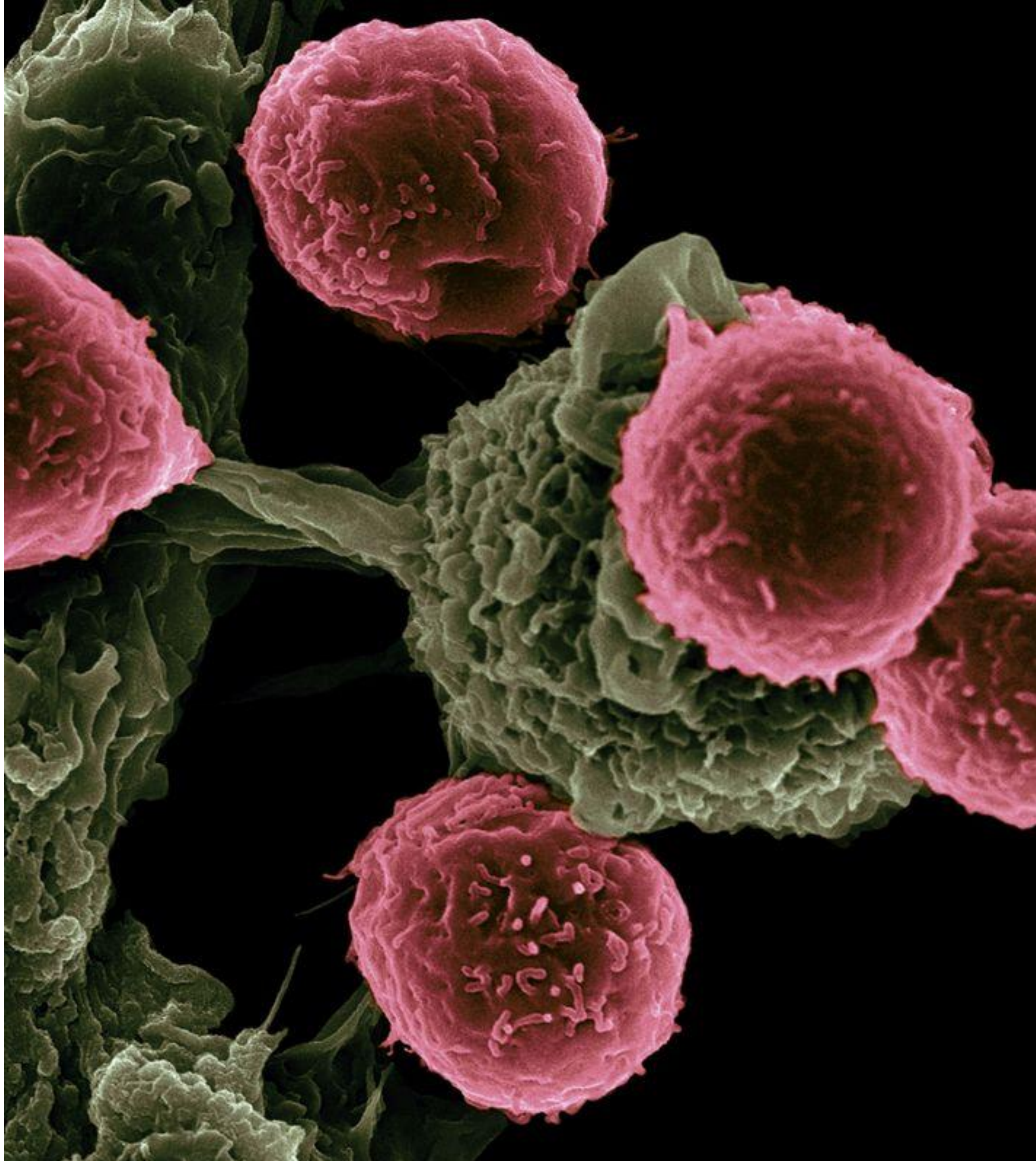
INDERES CORPORATE CUSTOMER

COMPANY REPORT



The share price drops offers a chance to buy more

Last weekend, Faron published new BEXMAB trial results at the ESMO conference. On Monday, the company issued a release on the results and on Thursday, it organized a webcast. In the big picture, the main results of the trial have already been clear with the summer releases and the ASCO webcast. The new data complemented the big picture, which remained essentially unchanged. Our vision of Faron's future has remained unchanged. However, the share price has fallen, which has improved the risk/reward ratio. We reiterate our EUR 2.5 target price and raise our recommendation to Accumulate (was Reduce).

Updated information on bexmarilimab's effects in MDS was obtained

In BEXMAB, patients with intermediate-risk, high-risk, and very high-risk myelodysplastic syndrome (HR-MDS) receive a combination of Faron's investigational drug, bexmarilimab, and the standard drug, azacitidine. The main results of the trial were already published earlier in the summer. Among frontline MDS patients, the overall response rate (ORR) was 85% (17/20 patients) and the complete remission (CR) rate was 45% (9/20 patients). The response rate is very good, and particularly patients with low blast counts responded well to the drug combination. However, due to the small number of patients and the trial design, strong conclusions about efficacy cannot yet be drawn.

Faron reported observing higher bexmarilimab binding to its Clever-1 target in the bone marrow (target engagement) in patients who responded well to treatment. We find this information biologically interesting. However, we believe treatment responses and future financing solutions are currently at the core of value creation. Overall, the release offered interesting details on bexmarilimab's effect in MDS and, in addition to new data, reiterated the key trial results.

Next big step is starting the Phase II/III MDS trial next year

Next, Faron is preparing for a Phase II/III trial in frontline MDS, based on which the company can apply for accelerated marketing authorization, provided that the results support it. The company plans to start the trial in Q2'26. The trial is randomized and controlled, meaning that the data obtained will be of high quality and enable reliable conclusions. Faron's current cash reserves will last until Q1'26, so additional funding will be required to carry out the new trial.

Secured funding sufficient until Q1'26

In the early part of the year, Faron carried out a directed share issue of 12 MEUR and also agreed to a convertible bond of 35 MEUR, of which 15 MEUR has been drawn down to date. With these arrangements in place, the company states that the current cash reserves will suffice until Q1'26. Implementing the crucial phase of the MDS trial will, therefore, require significant new funding. Faron is seeking a partnership agreement with a larger pharmaceutical company to fund the research, though other funding options and combinations thereof are also possible.

The share price drop has increased the attractiveness of the stock

Our DCF model suggests a value of EUR 2.5 per share (unchanged), meaning that in our view, the risk/reward ratio is attractive again after the share price decline. The near future of share returns will be colored by a financing solution, for which information may be available fairly soon.

Recommendation
Accumulate
(was Reduce)

Target price:
EUR 2.50
(was EUR 2.50)

Share price:
EUR 2.01

Business risk
●●●●●

Valuation risk
●●●●○

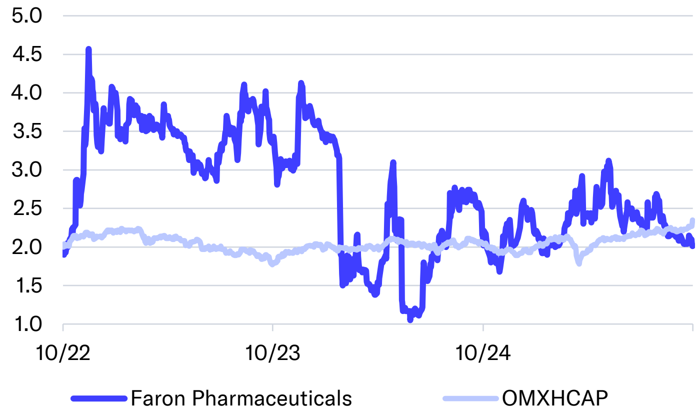
	2024	2025e	2026e	2027e
Revenue	0.0	0.0	0.0	0.0
growth-%	0%	0%	0%	0%
EBIT adj.	-18.7	-22.6	-30.5	-31.2
PTP	-26.0	-25.7	-33.9	-35.0
EPS (adj.)	-0.25	-0.22	-0.28	-0.28
Dividend	0.00	0.00	0.00	0.00
P/E (adj.)	neg.	neg.	neg.	neg.
P/B	neg.	neg.	neg.	neg.
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	neg.	neg.	neg.
EV/EBITDA	neg.	neg.	neg.	neg.
EV/S	>100	>100	>100	>100

Source: Inderes

Guidance

Faron does not provide any guidance

Share price



Source: Millistream Market Data AB

Value drivers

- High need for new cancer drugs
- Target market is estimated to grow to 140 BNUSD by 2030 (CAGR 16.4%)
- The pharmaceutical sector is very defensive
- 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	2.01	2.01	2.01
Number of shares, millions	116.6	120.6	124.5
Market cap	234	242	250
EV	237	269	302
P/E (adj.)	neg.	neg.	neg.
P/E	neg.	neg.	neg.
P/B	neg.	neg.	neg.
P/S	>100	>100	>100
EV/Sales	>100	>100	>100
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	**2.01**	**2.01**	**2.01**	**2.01**
Number of shares, millions	46.9	53.2	59.8	68.8	104.6	**116.6**	**120.6**	**124.5**	**127.8**
Market cap	136	172	222	259	234	**234**	**242**	**250**	**257**
EV	135	169	228	265	237	**237**	**269**	**302**	**327**
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**	**>100**	**>100**
EV/Sales	>100	>100	>100	>100	>100	**>100**	**>100**	**>100**	**>100**
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

The market cap and enterprise value in the table consider the expected change in the number of shares and net debt for the forecast years.

Income statement

Income statement	H1'23	H2'23	2023	H1'24	H2'24	2024	H1'25	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**	**0.0**	**0.0**
EBITDA	**-12.6**	**-15.6**	**-28.2**	**-11.1**	**-7.2**	**-18.3**	**-11.8**	**-10.6**	**-22.4**	**-30.2**	**-31.0**	**-31.7**
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**	**-11.9**	**-10.7**	**-22.6**	**-30.5**	**-31.2**	**-31.9**
EBIT	**-12.8**	**-15.8**	**-28.6**	**-11.3**	**-7.4**	**-18.7**	**-11.9**	**-10.7**	**-22.6**	**-30.5**	**-31.2**	**-31.9**
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**	**-14.4**	**-11.3**	**-25.7**	**-33.9**	**-35.0**	**-31.9**
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**	**-14.4**	**-11.3**	**-25.7**	**-33.9**	**-35.0**	**-31.9**
EPS (adj.)	**-0.20**	**-0.25**	**-0.45**	**-0.14**	**-0.11**	**-0.25**	**-0.12**	**-0.10**	**-0.22**	**-0.28**	**-0.28**	**-0.25**
EPS (rep.)	**-0.20**	**-0.25**	**-0.45**	**-0.14**	**-0.11**	**-0.25**	**-0.12**	**-0.10**	**-0.22**	**-0.28**	**-0.28**	**-0.25**

Source: Inderes

Full-year earnings per share are calculated using the number of shares at year-end.

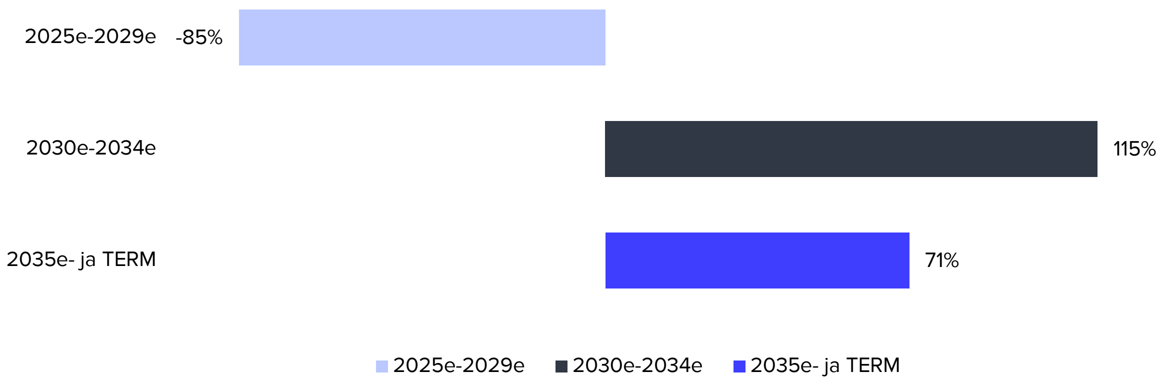
DCF-calculation

DCF model	2024	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	2036e	2037e	2038e	2039e	2040e	2041e	TERM
Revenue growth-%						24907.6 %	426.0 %	141.0 %	98.5 %	60.9 %	65.3 %	34.0 %	19.0 %	9.2 %	2.2 %	-1.7 %	-29.6 %	-100.0 %	0.0 %
EBIT-%						-665.8 %	-16.9 %	40.9 %	68.7 %	79.7 %	87.4 %	90.2 %	91.5 %	92.0 %	91.9 %	91.6 %	87.6 %	0.0 %	0.0 %
EBIT (operating profit)	**-18.7**	**-22.6**	**-30.5**	**-31.2**	**-31.9**	**-16.7**	**-2.2**	**13.0**	**43.2**	**80.6**	**146**	**202**	**244**	**268**	**274**	**268**	**180**	**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	0.0	
- Paid taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-2.6	-8.6	-16.1	-29.2	-40.4	-48.8	-53.6	-54.7	-53.6	-36.1	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	2.5	-0.2	-0.7	-0.6	-1.6	-1.9	-3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Operating cash flow	**-22.8**	**-20.8**	**-30.2**	**-31.0**	**-29.2**	**-16.7**	**-2.8**	**9.9**	**33.1**	**62.7**	**113**	**162**	**195**	**214**	**219**	**214**	**144**	**0.0**	
+ 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	0.0	0.3	
Free operating cash flow	**-20.3**	**-24.4**	**-30.3**	**-31.0**	**-29.3**	**-16.8**	**-2.9**	**9.8**	**33.1**	**62.6**	**113**	**162**	**195**	**214**	**218**	**214**	**144**	**0.3**	
+/- 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	2.6	-10.3	-31.0	-29.3	-16.8	-2.9	9.8	33.1	62.6	113	162	195	214	218	214	144	0.3	0.0
Discounted FCFF		**2.6**	**-9.0**	**-24.2**	**-20.4**	**-10.4**	**-1.6**	**4.9**	**14.6**	**24.7**	**39.9**	**51.0**	**54.9**	**53.8**	**49.0**	**42.9**	**25.8**	**0.1**	**0.0**
Sum of FCFF present value		299	296	305	329	350	360	362	357	342	317	277	226	172	118	68.8	25.9	0.1	0.0
Enterprise value DCF		**299**																	
- Interest bearing debt		-11.8																	
+ Cash and cash equivalents		9.5																	
-Minorities		0.0																	
-Dividend/capital return		0.0																	
Equity value DCF		**296**																	
Equity value DCF per share		**2.5**																	

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 %**

Source: Inderes

Cash flow distribution



Summary

Income statement	2022	2023	2024	2025e	2026e
Revenue	0.0	0.0	0.0	**0.0**	**0.0**
EBITDA	-27.4	-28.2	-18.3	**-22.4**	**-30.2**
EBIT	-27.4	-28.6	-18.7	**-22.6**	**-30.5**
PTP	-28.7	-30.9	-26.0	**-25.7**	**-33.9**
Net Income	-28.6	-30.9	-25.9	**-25.7**	**-33.9**
Extraordinary items	0.0	0.0	0.0	**0.0**	**0.0**

Per share data	2022	2023	2024	2025e	2026e
EPS (reported)	-0.48	-0.45	-0.25	**-0.22**	**-0.28**
EPS (adj.)	-0.48	-0.45	-0.25	**-0.22**	**-0.28**
OCF / share	-0.39	-0.36	-0.22	**-0.18**	**-0.25**
FCF / share	-0.38	0.01	0.14	**0.02**	**-0.09**
Book value / share	-0.19	-0.22	-0.09	**-0.07**	**-0.27**
Dividend / share	0.00	0.00	0.00	**0.00**	**0.00**

Balance sheet	2022	2023	2024	2025e	2026e
Balance sheet total	11.3	10.2	12.5	**16.0**	**7.1**
Equity capital	-11.5	-15.2	-9.8	**-8.5**	**-32.4**
Goodwill	0.0	0.0	0.0	**0.0**	**0.0**
Net debt	6.0	6.0	2.3	**2.8**	**26.5**

Growth and profitability	2022	2023	2024	2025e	2026e
Revenue growth-%	0%	0%	0%	**0%**	**0%**
EBITDA growth-%	32%	3%	-35%	**23%**	**35%**
EBIT (adj.) growth-%	30%	4%	-35%	**21%**	**35%**
EPS (adj.) growth-%	20%	-6%	-45%	**-11%**	**28%**

Cash flow	2022	2023	2024	2025e	2026e
EBITDA	-27.4	-28.2	-18.3	**-22.4**	**-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	**-20.8**	**-30.2**
CAPEX	-0.4	-0.2	-0.6	**-0.1**	**-0.1**
Free cash flow	-22.5	0.8	14.3	**2.6**	**-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

The market cap and enterprise value in the table consider the expected change in the number of shares and net debt for the forecast years. Per-share figures are calculated using the number of shares at year-end.

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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

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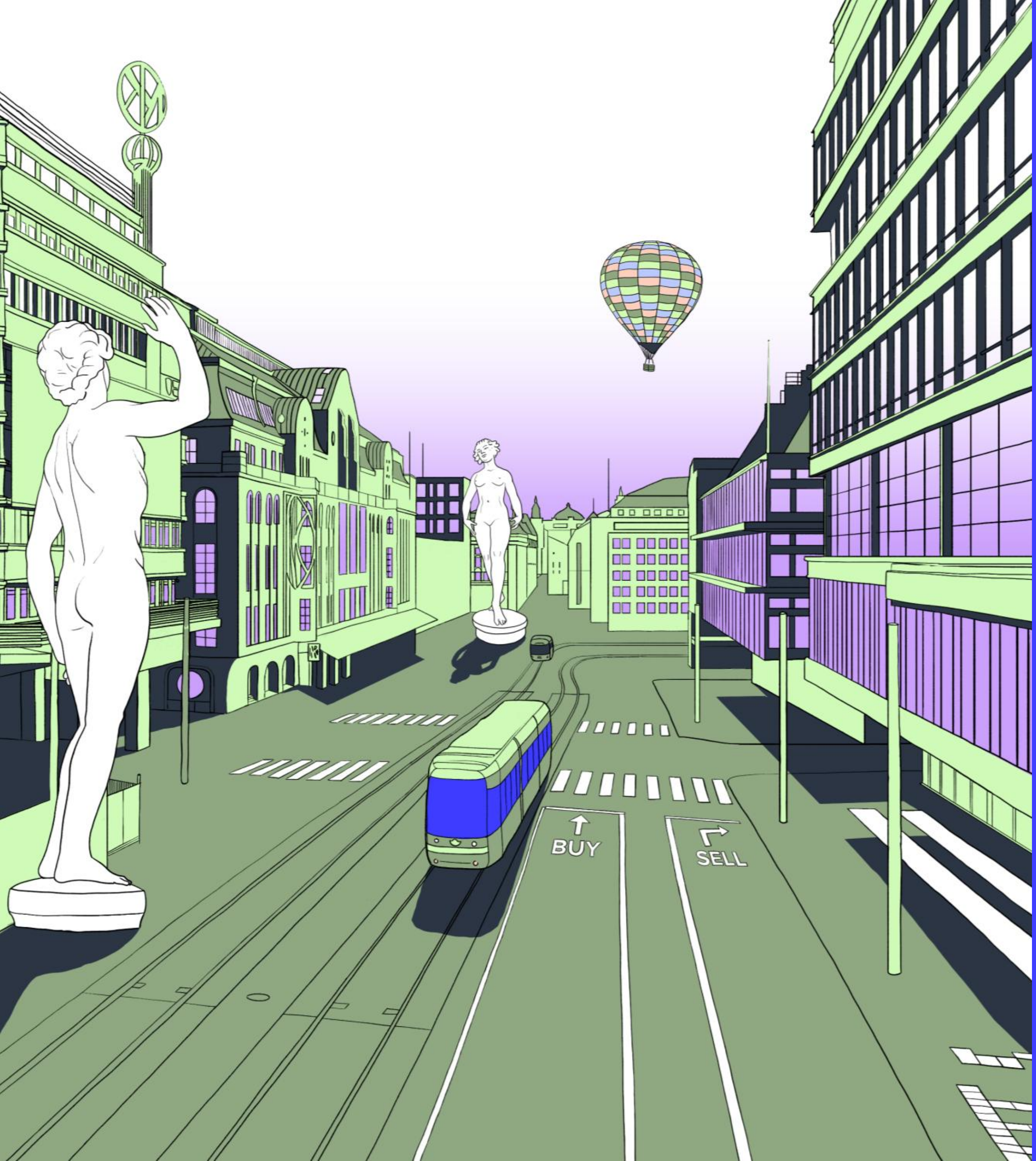
Recommendation history (>12 mo)

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	Lisää	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 €
6/3/2025	Reduce	3.00 €	3.02 €
7/29/2025	Accumulate	3.00 €	2.23 €
8/28/2025	Reduce	2.50 €	2.44 €
10/24/2025	Accumulate	2.50 €	2.01 €



CONNECTING INVESTORS AND COMPANIES.

Inderes connects investors and listed companies.

We serve over 400 Nordic listed companies that want to better serve investors. The Inderes community is home to over 70,000 active investors.

We provide listed companies with solutions that enable seamless and effective investor relations. The Inderes service is built on four cornerstones for high-quality investor relations: Equity Research, Events, IR Software, and Annual General Meetings (AGM).

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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