

# Faron Pharmaceuticals

## Company report

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This report is a summary translation of the report “BEXMAB-tutkimuksen hyvä vire tukee arvostusta” published on 4/17/2023 at 9:25 pm

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# BEXMAB study's good momentum supports valuation

Faron again published positive results of the BEXMAB study that focuses on blood cancers. The company seems to have preliminary efficacy proof already in the phase I/II study, which we believe supports the probabilities of the study path being successful. With the positive estimate changes justified by the results we feel that the valuation picture of the share is slightly more neutral, but still not sufficiently attractive in terms of the risk/return ratio. We raise our target price to EUR 3.6 (previous EUR 3.0) but reiterate our Reduce recommendation.

## BEXMAB continues to progress positively, MATINS and BEXCOMBO wait for FDA review

Faron does not yet have revenue and its value creation relies on successful progress of uncertain drug development studies toward commercialization. The BEXMAB study, focusing on blood cancers, has a positive momentum as the positive initial results at the end of last year accelerated patient recruitment for the study. The now reported follow-up [results](#) continued along this line. The second cohort of five patients in the study tolerated the second dose level (1, 3 and 6 mg/kg) well. The group also received good treatment response at an early stage: 2x partial (PR) or complete remission (CR) and 2x stabilized disease, one of which decreased the number of cancer cells by > 50%. In addition, in the first five patient cohort the disease has remained in remission for 9-10 months for three patients with good treatment response (CR or PR). In light of the results, Faron seems to receive good preliminary efficacy proof as a by-product from the phase I/II BEXMAB study. Thus, the company announced that it seeks further guidance from the FDA on these cancers in Q3/2023, which suggests the possibility of early marketing authorization has increased. MATINS and BEXCOMBO studies still wait for FDA feedback and further plans to be published after this. Faron has also previously reported an investigator initiated Traumakine study, starting later this year, and an investigator initiated BEXLUNG study that will start after delays.

## We raised the probability of BEXMAB's success

Our estimates are based on an assessment of the progress of the studies and their risk-adjusted modeling described in more detail in [our extensive report](#). We assess the progress of Faron's wider study program in our [company update](#) published in early 2023, which is still largely relevant. However, the reported data on BEXMAB's progress and initial efficacy with a slightly wider patient population raised our expectations of the preconditions of success for this study path. We, therefore, raised our assessment of the likelihood of BEXMAB's study program being successful in progressing to marketing authorization, which raises our risk-adjusted estimates. We believe that the big picture of Faron's equity story still relies on the commercialization or sale of drug candidates once their safety and efficacy has been proven in extensive studies.

## Valuation picture has turned more neutral before information on the continuation of MATINS and BEXCOMBO

The DCF calculation indicates a EUR 3.6 fair value for the share (previous EUR 3.0). Due to the high uncertainty associated with the assumptions, the valuation tolerances are high. Considering this, the valuation of the share is, in our view, fairly neutral, but still not sufficiently attractive in terms of the risk/return ratio. Compared to Nordic pharmaceutical companies, Faron is still priced (partly rightly so) higher than the peers. We point out that if the drug development is successful, the share is probably far more valuable than currently, but on the other hand, failure would lead to a loss of capital. Thus, the company is a high-risk investment as typical in the industry.

## Recommendation

### Reduce

(previous Reduce)

### EUR 3.60

(previous EUR 3.00)

### Share price:

3.85



## Key figures

	2022	2023e	2024e	2025e
Revenue	0.0	0.0	0.0	12.6
growth-%	0%	0%	0%	314354%
EBIT adj.	-27.4	-15.8	-3.1	1.8
PTP	-28.7	-16.1	-3.4	1.5
EPS (adj.)	-0.48	-0.25	-0.05	0.02
Dividend	0.00	0.00	0.00	0.00
P/E (adj.)	neg.	neg.	neg.	>100
P/B	neg.	neg.	neg.	neg.
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	neg.	neg.	>100
EV/EBITDA	neg.	neg.	neg.	>100
EV/S	>100	>100	>100	21.8

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 USD 140 billion by 2030 (CAGR 16.8 %)
- 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

Valuation	2023e	2024e	2025e
Share price	3.85	3.85	3.85
Number of shares, millions	63.5	63.5	63.5
Market cap	244	244	244
EV	273	276	275
P/E (adj.)	neg.	neg.	>100
P/E	neg.	neg.	>100
P/FCF	neg.	neg.	>100
P/B	neg.	neg.	neg.
P/S	>100	>100	19.4
EV/Sales	>100	>100	21.8
EV/EBITDA	neg.	neg.	>100
EV/EBIT (adj.)	neg.	neg.	>100
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

# Estimate revisions

## Estimate revisions

- Considering the study results, we raised the probabilities of the BEXMAB study progressing. Initial displays of the efficacy of bexmarilimab now with a slightly larger number of patients (10 patients, previously 5) and a step longer monitoring period, in our view support the preconditions of the next steps of the study materializing.

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	0.0	0.0		0.0	0.0	0%	9.0	12.6	39%
EBIT	-15.8	-15.8	0%	-3.1	-3.1	0%	-1.8	1.8	-199%
PTP	-16.1	-16.1	0%	-3.4	-3.4	0%	-2.1	1.5	-170%
EPS (excl. NRIs)	-0.25	-0.25	0%	-0.05	-0.05	0%	-0.03	0.02	-170%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

# Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price		3.30	2.91	3.24	3.71	<b>3.85</b>	<b>3.85</b>	<b>3.85</b>	<b>3.85</b>
Number of shares, millions	31.0	43.3	46.9	53.2	59.8	<b>63.5</b>	<b>63.5</b>	<b>63.5</b>	<b>63.5</b>
Market cap		143	136	172	222	<b>244</b>	<b>244</b>	<b>244</b>	<b>244</b>
EV	-1.9	138	135	169	228	<b>273</b>	<b>276</b>	<b>275</b>	<b>267</b>
P/E (adj.)	0.0	neg.	neg.	neg.	neg.	<b>neg.</b>	<b>neg.</b>	<b>&gt;100</b>	<b>28.1</b>
P/E	0.0	neg.	neg.	neg.	neg.	<b>neg.</b>	<b>neg.</b>	<b>&gt;100</b>	<b>28.1</b>
P/FCF	0.0	neg.	neg.	neg.	neg.	<b>neg.</b>	<b>neg.</b>	<b>&gt;100</b>	<b>32.0</b>
P/B	0.0	88.7	neg.	58.8	neg.	<b>neg.</b>	<b>neg.</b>	<b>neg.</b>	<b>neg.</b>
P/S	0.0	>100	>100	>100	>100	<b>&gt;100</b>	<b>&gt;100</b>	<b>19.4</b>	<b>8.6</b>
EV/Sales	neg.	>100	>100	>100	>100	<b>&gt;100</b>	<b>&gt;100</b>	<b>21.8</b>	<b>9.4</b>
EV/EBITDA	0.1	neg.	neg.	neg.	neg.	<b>neg.</b>	<b>neg.</b>	<b>&gt;100</b>	<b>29.0</b>
EV/EBIT (adj.)	0.1	neg.	neg.	neg.	neg.	<b>neg.</b>	<b>neg.</b>	<b>&gt;100</b>	<b>29.7</b>
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>
Dividend yield-%		0.0 %	0.0 %	0.0 %	0.0 %	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>

Source: Inderes

# Income statement

Income statement	H1'21	H2'21	2021	H1'22	H2'22	2022	H1'23e	H2'23e	2023e	H1'24e	H2'24e	2024e	2025e	2026e
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	12.6	28.4
EBITDA	-10.3	-10.5	-20.8	-13.5	-13.9	-27.4	-7.8	-7.8	-15.6	0.0	0.0	-2.8	2.0	9.2
Depreciation	-0.2	-0.2	-0.3	0.2	-0.2	0.0	-0.1	-0.1	-0.2	0.0	0.0	-0.3	-0.3	-0.2
EBIT (excl. NRI)	-10.4	-10.7	-21.1	-13.4	-14.1	-27.4	-7.9	-7.9	-15.8	0.0	0.0	-3.1	1.8	9.0
EBIT	-10.4	-10.7	-21.1	-13.4	-14.1	-27.4	-7.9	-7.9	-15.8	0.0	0.0	-3.1	1.8	9.0
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	0.0	0.0
Net financial items	-0.1	0.0	-0.1	0.3	-1.5	-1.2	-0.2	-0.2	-0.3	0.0	0.0	-0.3	-0.3	-0.3
PTP	-10.6	-10.6	-21.2	-13.1	-15.6	-28.7	-8.0	-8.0	-16.1	0.0	0.0	-3.4	1.5	8.7
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	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	0.0	0.0
Net earnings	-10.6	-10.6	-21.2	-13.1	-15.6	-28.7	-8.0	-8.0	-16.1	0.0	0.0	-3.4	1.5	8.7
EPS (adj.)	-0.20	-0.20	-0.40	-0.24	-0.26	-0.48	-0.13	-0.13	-0.25	0.00	0.00	-0.05	0.02	0.14
EPS (rep.)	-0.20	-0.20	-0.40	-0.24	-0.26	-0.48	-0.13	-0.13	-0.25	0.00	0.00	-0.05	0.02	0.14

Source: Inderes

# Balance sheet

Assets	2021	2022	2023e	2024e	2025e
<b>Non-current assets</b>	<b>1.1</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.9	1.2	1.2	0.9	0.7
Tangible assets	0.2	0.3	0.3	0.3	0.4
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
<b>Current assets</b>	<b>12.1</b>	<b>9.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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	5.2	2.8	0.0	0.0	0.0
Cash and equivalents	6.9	7.0	0.0	0.0	0.0
<b>Balance sheet total</b>	<b>13.2</b>	<b>11.3</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
<b>Equity</b>	<b>2.9</b>	<b>-11.5</b>	<b>-27.6</b>	<b>-30.9</b>	<b>-29.5</b>
Share capital	2.7	2.7	2.7	2.7	2.7
Retained earnings	-116.3	-143.7	-159.8	-163.2	-161.7
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	117	130	130	130	130
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Non-current liabilities</b>	<b>3.1</b>	<b>12.3</b>	<b>24.7</b>	<b>27.4</b>	<b>26.1</b>
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.2	0.0	0.0	0.0
Long term debt	2.9	11.1	24.2	26.9	25.6
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.2	1.0	0.5	0.5	0.5
<b>Current liabilities</b>	<b>7.2</b>	<b>10.5</b>	<b>4.3</b>	<b>4.8</b>	<b>4.5</b>
Short term debt	0.4	1.9	4.3	4.8	4.5
Payables	6.7	8.6	0.0	0.0	0.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0
<b>Balance sheet total</b>	<b>13.2</b>	<b>11.3</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>

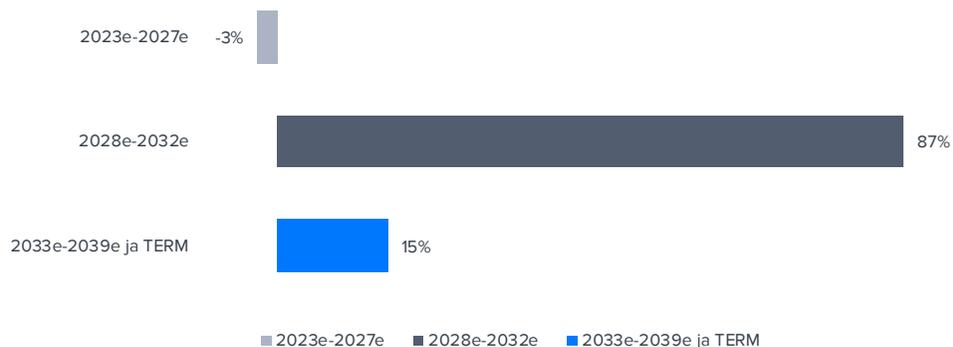
# DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	2036e	2037e	2038e	2039e	TERM
Revenue growth-%	0.0 %	0.0 %	0.0 %	314354.1 %	126.1 %	41.3 %	50.1 %	27.6 %	19.8 %	7.8 %	7.6 %	4.1 %	4.1 %	4.1 %	4.1 %	4.1 %	-39.5 %	-32.8 %	-100.0 %
EBIT-%				13.9 %	31.6 %	51.4 %	67.0 %	73.1 %	76.9 %	77.9 %	79.0 %	79.3 %	79.6 %	79.9 %	80.2 %	80.5 %	66.5 %	0.0 %	0.0 %
<b>EBIT (operating profit)</b>	<b>-27.4</b>	<b>-15.8</b>	<b>-3.1</b>	<b>1.8</b>	<b>9.0</b>	<b>20.7</b>	<b>40.4</b>	<b>56.3</b>	<b>70.9</b>	<b>77.4</b>	<b>84.4</b>	<b>88.2</b>	<b>92.3</b>	<b>96.5</b>	<b>101</b>	<b>105</b>	<b>52.6</b>	<b>0.0</b>	
+ Depreciation	0.0	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.1	0.0	
- Paid taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-15.4	-16.8	-17.6	-18.4	-19.2	-20.1	-21.0	-10.5	0.1	
- Tax, financial expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	
+ 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	4.3	-5.8	0.0	0.0	-1.4	-0.6	-1.0	-0.8	-0.8	-0.4	-0.4	-0.2	-0.2	-0.2	-0.2	-0.3	6.5	0.0	
<b>Operating cash flow</b>	<b>-23.2</b>	<b>-21.4</b>	<b>-2.8</b>	<b>2.0</b>	<b>7.8</b>	<b>20.3</b>	<b>39.6</b>	<b>55.7</b>	<b>70.3</b>	<b>61.7</b>	<b>67.3</b>	<b>70.5</b>	<b>73.8</b>	<b>77.1</b>	<b>80.6</b>	<b>84.3</b>	<b>49.7</b>	<b>0.0</b>	
+ Change in other long-term liabilities	1.0	-0.7	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	-0.5	0.0	
- Gross CAPEX	-0.4	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	
<b>Free operating cash flow</b>	<b>-22.5</b>	<b>-22.2</b>	<b>-2.9</b>	<b>1.9</b>	<b>7.7</b>	<b>20.1</b>	<b>39.4</b>	<b>55.5</b>	<b>70.2</b>	<b>61.6</b>	<b>67.2</b>	<b>70.4</b>	<b>73.6</b>	<b>76.9</b>	<b>80.4</b>	<b>84.1</b>	<b>49.0</b>	<b>-0.2</b>	
+/- Other	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	
FCFF	-22.5	-22.2	-2.9	1.9	7.7	20.1	39.4	55.5	70.2	61.6	67.2	70.4	73.6	76.9	80.4	84.1	49.0	-0.2	0.2
<b>Discounted FCFF</b>		<b>-20.6</b>	<b>-2.5</b>	<b>1.4</b>	<b>5.2</b>	<b>12.3</b>	<b>21.7</b>	<b>27.5</b>	<b>31.4</b>	<b>24.8</b>	<b>24.4</b>	<b>23.0</b>	<b>21.7</b>	<b>20.4</b>	<b>19.2</b>	<b>18.1</b>	<b>9.5</b>	<b>0.0</b>	<b>0.0</b>
Sum of FCFF present value		238	258	261	259	254	242	220	192	161	136	112	88.9	67.2	46.8	27.6	9.5	0.0	0.0
<b>Enterprise value DCF</b>		<b>238</b>																	
- Interesting bearing debt		-13.0																	
+ Cash and cash equivalents		7.0																	
- Minorities		0.0																	
- Dividend/capital return		0.0																	
<b>Equity value DCF</b>		<b>232</b>																	
<b>Equity value DCF per share</b>		<b>3.6</b>																	

WACC	
Tax-% (WACC)	20.0 %
Target debt ratio D/(D+E)	0.0 %
Cost of debt	10.0 %
Equity Beta	1.37
Market risk premium	4.75 %
Liquidity premium	2.00 %
Risk free interest rate	2.5 %
<b>Cost of equity</b>	<b>11.0 %</b>
<b>Weighted average cost of capital (WACC)</b>	<b>11.0 %</b>

Source: Inderes

## Cash flow distribution



# Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	0.0	0.0	0.0	0.0	0.0	EPS (reported)	-0.36	-0.40	-0.48	-0.25	-0.05
EBITDA	-16.4	-20.8	-27.4	-15.6	-2.8	EPS (adj.)	-0.36	-0.40	-0.48	-0.25	-0.05
EBIT	-16.7	-21.1	-27.4	-15.8	-3.1	OCF / share	-0.36	-0.42	-0.39	-0.34	-0.04
PTP	-16.9	-21.2	-28.7	-16.1	-3.4	FCF / share	-0.35	-0.44	-0.38	-0.35	-0.05
Net Income	-16.9	-21.2	-28.7	-16.1	-3.4	Book value / share	-0.04	0.06	-0.19	-0.43	-0.49
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	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	8.4	13.2	11.3	1.4	1.3	Revenue growth-%	0%	0%	0%	0%	0%
Equity capital	-1.9	2.9	-11.5	-27.6	-30.9	EBITDA growth-%	27%	27%	32%	-43%	-82%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	27%	27%	30%	-42%	-81%
Net debt	-1.4	-3.5	6.0	28.5	31.7	EPS (adj.) growth-%	18%	10%	20%	-47%	-79%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	-409275%	-520050%	-685675%	-389524%	-69792%
EBITDA	-16.4	-20.8	-27.4	-15.6	-2.8	EBIT (adj.)-%	-416350%	-527700%	-685650%	-394524%	-76864%
Change in working capital	-0.7	-1.5	4.3	-5.8	0.0	EBIT-%	-416350%	-527700%	-685650%	-394524%	-76864%
Operating cash flow	-17.1	-22.4	-23.2	-21.4	-2.8	ROE-%	14063.1%	-3920.3%	671.2%	82.4%	11.5%
CAPEX	-0.2	-0.5	-0.4	-0.1	-0.1	ROI-%	-676.3%	-588.9%	-707.3%	-1320.9%	-365.3%
Free cash flow	-16.6	-23.6	-22.5	-22.2	-2.9	Equity ratio	-22.1%	22.3%	-101.8%	-1948.5%	-2437.8%
						Gearing	73.9%	-119.5%	-52.0%	-103.3%	-102.5%
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	>100	>100	>100	>100	>100						
EV/EBITDA (adj.)	neg.	neg.	neg.	neg.	neg.						
EV/EBIT (adj.)	neg.	neg.	neg.	neg.	neg.						
P/E (adj.)	neg.	neg.	neg.	neg.	neg.						
P/B	neg.	58.8	neg.	neg.	neg.						
Dividend-%	0.0%	0.0%	0.0%	0.0%	0.0%						

Source: Inderes

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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
08-08-22	Accumulate	2.80 €	2.44 €
26-08-22	Accumulate	2.80 €	2.22 €
17-10-22	Accumulate	2.50 €	1.97 €
10-01-23	Reduce	3.00 €	3.71 €
06-03-23	Reduce	3.00 €	3.74 €
18-04-23	Reduce	3.60 €	3.85 €



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