

FARON PHARMACEUTICALS

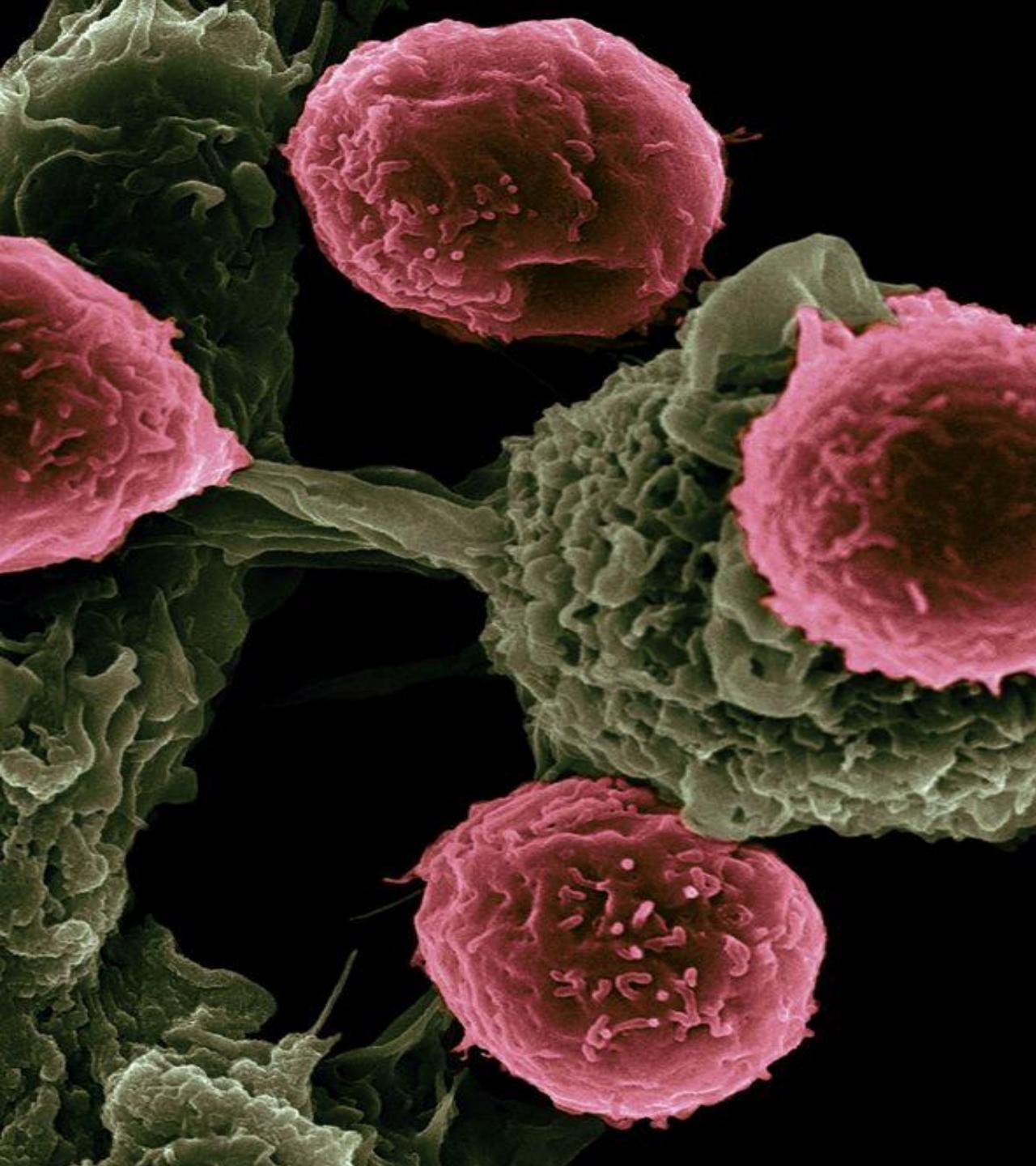
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INDERES CORPORATE CUSTOMER
COMPANY REPORT



From financing crossroads towards share issue

Faron Pharmaceuticals announced on Monday that it is planning a rights offering of around 40 MEUR. The significant financing is intended to cover, in particular, the first part of bexmarilimab's registration trial (Phase II) in the treatment of high-risk MDS. We are modeling the offering into our forecasts with a significant discount to the current share price and raising our required rate of return due to increased financial risks. As a result of these changes, we lower our target price to EUR 1.5 and our recommendation to Reduce (was Accumulate) in accordance with the DCF model.

A partnership agreement was among the company's goals and market expectations

Faron's significant financing need to carry out the Phase II/III registrational trial has been well known. In our view, the company had two key options for securing financing: a partnership agreement with a larger pharmaceutical company or a share issue. Faron has been negotiating a partnership agreement for several years, but the negotiations have not resulted in a definitive agreement. In our view, the market has been expecting a partnership agreement, and we estimate that the news of the share issue will come as a disappointment to the market and lead to a share price decline. Depending on the terms, a partnership agreement could have reduced uncertainty and created additional value. The equity offering route, in principle, allows Faron to enter into a more valuable partnership agreement later if the results of the first part of the trial indicate clear efficacy. However, the flip side is an increasing number of shares and growing financial risk. Due to the uncertainty of financing options, for now we have not included either of the key alternatives, a partnership agreement or a share issue, as such in our forecasts.

The 40 MEUR issue is a significant financing effort

Faron aims to raise 40 MEUR through the offering. The share

issue is directed at existing shareholders, and the company is seeking authorization from an extraordinary general meeting for 80 million new shares. If successful, the funds should be sufficient to carry out the first part (Phase II) of the Phase II/III registrational trial. The trial will have a randomized and blinded design, meaning it will provide higher quality data on the efficacy of the bexmarilimab in first-line high-risk MDS than the previous Phase I/II trial. Regarding tolerability and safety, the results have previously appeared sufficiently good. Faron will hold a press conference regarding the offering on Wednesday, February 11 at 3 pm EET. You can watch the webcast [here](#).

We are adding the issue to our forecasts and raising our required return

The offering is large relative to Faron's market capitalization, so we expect a significant subscription discount compared to the current share price. We model the issue at a price of EUR 0.8 per share, based on the expectation of a pre-issue share price decline and a discounted subscription price. If realized, this would mean 50 million new shares, representing a 42% increase in the number of shares. The share issue also increases the likelihood that convertible bond conversions will have to be made at a lower share price than previously anticipated. This will put additional pressure on the share count growth in the coming years. Due to the large size of the share issue, we believe the company's financing risk increases, which is why we are raising our required rate of return (WACC) to 13% (was 12%).

The issue weakens the outlook for stock returns

Our DCF model gives the share a value of EUR 1.5 after the share issue discount, an increased required return, and minor forecast revisions. In our view, the risk/reward ratio remains unsatisfactory.

Recommendation

Reduce

(was Accumulate)

Business risk



Target price:

EUR 1.50

(was EUR 2.50)

Share price:

EUR 1.89

Valuation risk



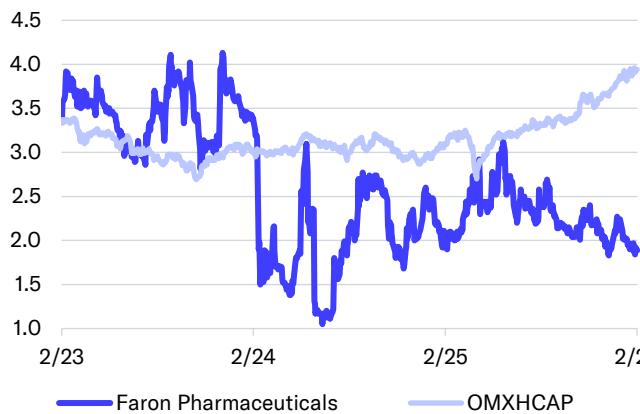
	2024	2025e	2026e	2027e
Revenue	0.0	0.0	0.0	0.0
growth-%	0%	0%	0%	0%
EBIT adj.	-18.7	-22.6	-30.5	-31.2
PTP	-26.0	-25.7	-33.9	-35.0
EPS (adj.)	-0.25	-0.15	-0.20	-0.20
Dividend	0.00	0.00	0.00	0.00
P/E (adj.)	neg.	neg.	neg.	neg.
P/B	neg.	neg.	neg.	neg.
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	neg.	neg.	neg.	neg.
EV/EBITDA	neg.	neg.	neg.	neg.
EV/S	>100	>100	>100	>100

Source: Inderes

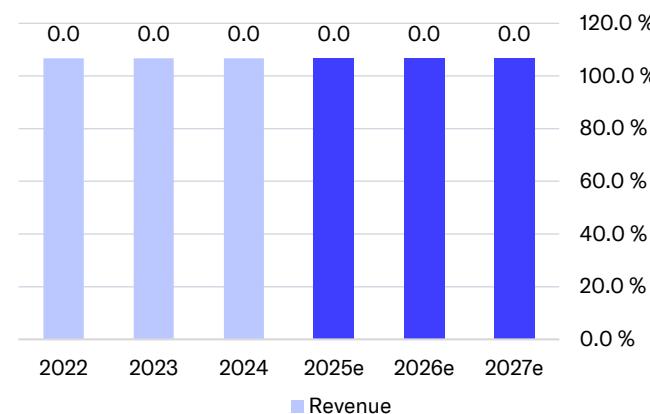
Guidance

Faron does not provide any guidance

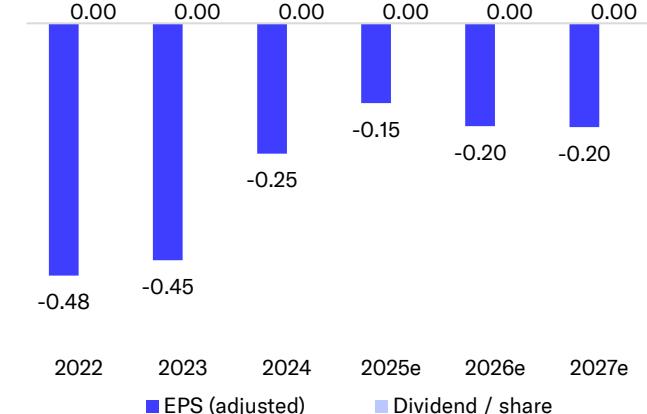
Share price



Revenue and EBIT-% (adj.)



EPS and dividend



Value drivers

- High need for new cancer drugs
- Target market is estimated to grow to 140 BUSD 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	1.89	1.89	1.89
Number of shares, millions	169.5	173.5	177.4
Market cap	320	328	335
EV	323	354	387
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	1.89	1.89	1.89
Number of shares, millions	46.9	53.2	59.8	68.8	104.6	169.5	173.5	177.4
Market cap	136	172	222	259	234	320	328	335
EV	135	169	228	265	237	323	354	387
P/E (adj.)	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.
P/E	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.
P/B	neg.	58.8	neg.	neg.	neg.	neg.	neg.	neg.
P/S	>100	>100	>100	>100	>100	>100	>100	>100
EV/Sales	>100	>100	>100	>100	>100	>100	>100	>100
EV/EBITDA	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.
EV/EBIT (adj.)	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 %
Dividend yield-%	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	H1'25	H2'25e	2025e	2026e	2027e	2028e
Revenue	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	-0.09	-0.07	-0.15	-0.20	-0.20	-0.18
EPS (rep.)	-0.20	-0.25	-0.45	-0.14	-0.11	-0.25	-0.09	-0.07	-0.15	-0.20	-0.20	-0.18

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	14.7	6.0	5.5
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	12.2	3.5	3.0
Balance sheet total	10.2	12.5	16.0	7.1	6.4

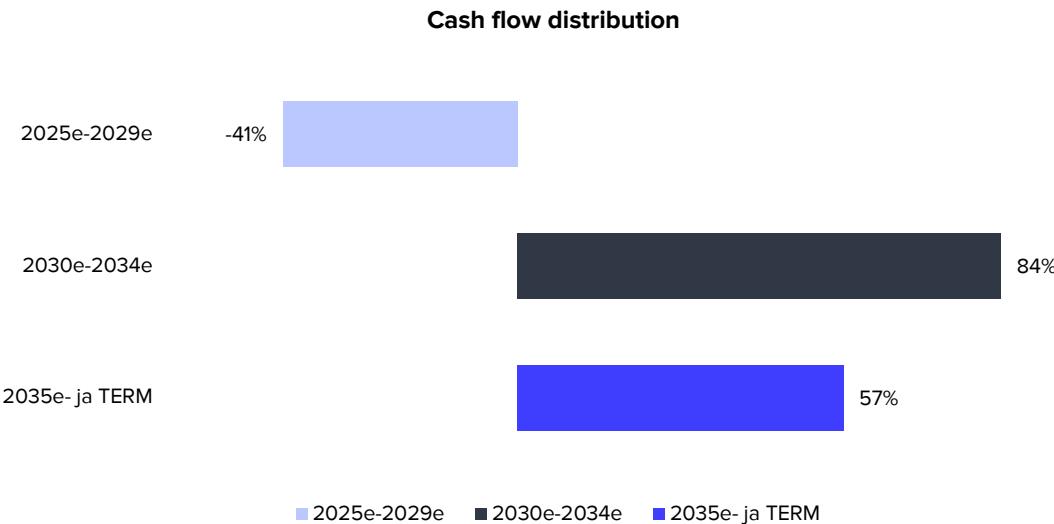
Source: Inderes

Liabilities & equity	2023	2024	2025e	2026e	2027e
Equity	-15.2	-9.8	-8.5	-32.4	-57.3
Share capital	2.7	2.7	2.7	2.7	2.7
Retained earnings	-172.2	-197.4	-223.1	-257.0	-292.0
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	49.6
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	29.1
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	14.1
Interest bearing debt	3.5	3.7	0.0	0.0	5.1
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	16.0	7.1	6.4

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-%							426.0 %	141.0 %	101.0 %	63.5 %	67.2 %	35.4 %	20.0 %	9.8 %	2.6 %	-1.4 %	-27.6 %	-100.0 %	0.0 %
EBIT-%							-43.5 %	27.5 %	62.2 %	75.8 %	85.2 %	88.6 %	90.2 %	90.8 %	90.8 %	90.4 %	86.2 %	0.0 %	0.0 %
EBIT (operating profit)	-18.7	-22.6	-30.5	-31.2	-31.9	-17.1	-4.7	7.1	32.3	64.3	121	170	208	230	236	231	160	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	-1.4	-6.5	-12.9	-24.2	-34.0	-41.6	-46.0	-47.1	-46.3	-32.0	0.9		
- 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	-0.9		
+ 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		
- Change in working capital	-4.6	1.6	0.0	0.0	2.5	-0.2	-0.6	-0.5	-1.3	-1.6	-4.8	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	-17.2	-5.1	5.3	24.6	49.9	92.0	136	166	184	189	185	128	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	-17.2	-5.2	5.3	24.6	49.8	91.9	136	166	184	188	185	128	0.3	
+/- Other	34.7	27.0	57.0	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	26.7	-31.0	-29.3	-17.2	-5.2	5.3	24.6	49.8	91.9	136	166	184	188	185	128	0.3	
Discounted FCFF	2.7	24.0	-24.7	-20.6	-10.7	-2.9	2.6	10.6	19.1	31.1	40.8	44.2	43.2	39.1	34.1	20.9	0.0	0.0	
Sum of FCFF present value	254	251	227	252	272	283	286	283	273	253	222	182	137	94.1	55.0	20.9	0.0	0.0	

Enterprise value DCF	254
- Interest bearing debt	-11.8
+ Cash and cash equivalents	9.5
-Minorities	0.0
-Dividend/capital return	0.0
Equity value DCF	251
Equity value DCF per share	1.5



Source: Inderser

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	-0.15	-0.20
EBITDA	-27.4	-28.2	-18.3	-22.4	-30.2	EPS (adj.)	-0.48	-0.45	-0.25	-0.15	-0.20
EBIT	-27.4	-28.6	-18.7	-22.6	-30.5	OCF / share	-0.39	-0.36	-0.22	-0.12	-0.17
PTP	-28.7	-30.9	-26.0	-25.7	-33.9	OFCF / share	-0.38	0.01	0.14	0.02	0.15
Net Income	-28.6	-30.9	-25.9	-25.7	-33.9	Book value / share	-0.19	-0.22	-0.09	-0.05	-0.19
Extraordinary items	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	16.0	7.1	Revenue growth-%	0%	0%	0%	0%	0%
Equity capital	-11.5	-15.2	-9.8	-8.5	-32.4	EBITDA growth-%	32%	3%	-35%	23%	35%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT (adj.) growth-%	30%	4%	-35%	21%	35%
Net debt	6.0	6.0	2.3	2.8	26.5	EPS (adj.) growth-%	20%	-6%	-45%	-39%	29%
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	26.7						
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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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

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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 €
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 democratizes financial information by connecting investors and listed companies. For investors, we are an investing community and a trusted source of financial information and equity research. For listed companies, we are a partner in delivering high-quality investor relations. Over 500 listed companies in Europe use our investor relations products and equity research services to provide better investor communications to their shareholders.

Our goal is to be the most investor-minded company in finance. Inderes was founded in 2009 by investors, for investors. As a Nasdaq First North-listed company, we understand the day-to-day reality of our customers.

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