Faron Pharmaceuticals

Initiation of coverage

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This report is a summary translation of the report “Sijoitus vaatii immuniteettiä riskeille” published on 8/8/2022 at 7:44 am

Risky investment with huge potential

We initiate coverage of Faron with a target price of EUR 2.8 and an Accumulate recommendation. Faron Pharmaceuticals is a clinical stage biopharmaceutical company whose three drug candidates relate to the modulation of immune system or inflammatory response. Faron is a very high-risk investment as drug development requires frontloaded investments in research, while the success of commercialization is very uncertain. If the drug candidates enter the market, the invested capital can be multiplied. However, failure of drug development is frequent and, in that case, the invested capital may be partially or totally lost. We believe the share provides sufficient expected return to counterbalance the high risk. The share is suitable for a long-term investor that tolerates high risk as part of a well-diversified portfolio. A person investing in Faron must also be prepared for share issues.

The core of the equity story is bexmarilimab, a cancer drug that activates the immunological defense

Faron's main drug candidate and basis for value creation is bexmarilimab developed for several solid tumors and blood cancers. The most advanced development project is in clinical phase I/II and we estimate that commercialization based on this could take place in 2026. Bexmarilimab is also being studied in three other clinical trials, estimated to be completed in 2027-2028. Bexmarilimab's target market is currently around USD 30 billion and is estimated to grow to USD 140 billion by 2030. So, the commercial potential is high. In commercialization, we believe that Faron seeks to enter into a licensing agreement with a large pharmaceutical company. This would guarantee Faron the resources for drug development, milestone payments, license income and the use of the partner's country-wide sales, marketing and distribution organization.

Our estimate model describes the probability weighted average of a negative and positive scenario

We estimate Faron's income and expenses by research based on the most likely indications (like types of cancer) that will lead to marketing approval based on the clinical trials Faron is running. Our estimate model is risk-adjusted, i.e. the probability of success of each study is considered in the calculations. In our estimates, Faron's income streams are likely to start accumulating from 2026 and reach their peak in the mid-2030s before the patent for bexmarilimab runs out.

The company's current cash position is sufficient to cover expenses until Q1'23 and we expect a share issue from the company during H2'22-H1'23. A successful share issue would also allow raising debt financing linked to the issue. We also expect the company to actively seek a development and commercialization agreement with a larger pharmaceutical company in the near future.

Share's expected return is sufficient to counterbalance the high risk

Our valuation is based on a risk adjusted DCF model and peer group analysis. In addition, we reflect the valuation to commercialization agreements and acquisitions implemented in the industry. Based on our DCF model the share value is EUR 2.8. The cash flows that explain the present value are mainly generated in 2027-2031 while the cash flows in the next few years are negative. Comparison with Nordic drug development companies at the same development stage indicate a neutral valuation for Faron. Implemented commercialization agreements and acquisitions have been significantly valuable compared to Faron's market cap. However, we do not include agreements and acquisitions in our valuation, because it is very difficult to predict their implementation. We believe that an investor currently receives sufficient return for the high risk of the share.

Recommendation

Accumulate
(previous -)

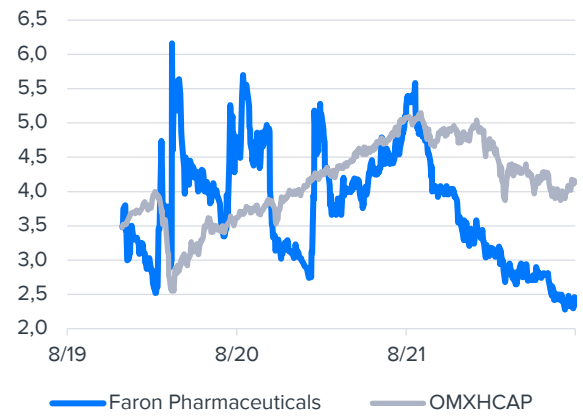
EUR 2.80
(previous -)

Share price:
2.44

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 medicines whose annual revenue potential is calculated in billions and Faron's cash flow in hundreds of millions
- Potential can also materialize through a licensing agreement or acquisition

Risk factors

- Drug development requires substantial frontloaded 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	2022e	2023e	2024e
Share price	2.44	2.44	2.44
Number of shares, millions	55.3	55.3	55.3
Market cap	135	135	135
EV	155	156	158
P/E (adj.)	neg.	neg.	neg.
P/E	neg.	neg.	neg.
P/FCF	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

Contents

Faron in brief

Faron Pharmaceuticals is a clinical stage biopharmaceutical company. Faron's three drug candidates relate to the modulation of immune system or inflammation responses. The candidates are applied to cancer treatment, preventing organ damage and treating blood count abnormalities.

2006
Year of establishment

2015 & 2019
Listing on the London Stock Exchange in 2015 and on First North in 2019

Bexmarilimab
The most important of the company's three drug candidates. Developed for treatment of various cancers

USD 140 billion (2030)
Predicted target market for bexmarilimab

16.8% (CAGR 2020-2030)
Estimated growth of the target market

-21 MEUR
EBIT 2021

37
Personnel at the end of 2021

2006-2019

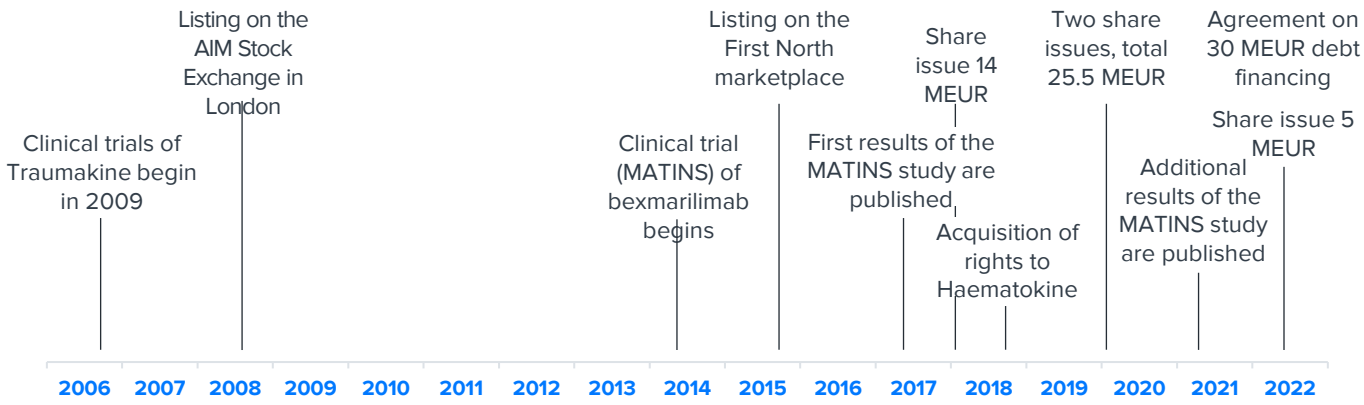
- The company is established in 2006 to commercialize innovations related to immunology
- Discovery of Bexmarilimab's target Clever-1 and developing an antibody that prevents its activity into a drug candidate in 2008
- Clinical trials of Traumakine begin in 2009
- Faron is listed on the AIM Stock Exchange in London 2015
- First Phase I/II study (MATINS) of bexmarilimab begins in 2018
- The company is listed on First North in 2019

2020

- First part of the MATINS study is completed
- The company signs a licensing agreement with the US Department of Defense. The contract concerns development of the company's Traumakine drug to prevent tissue damage associated with combat wounds.
- Faron acquires rights to the drug candidate Haematokine that increases the expansion of bone marrow stem cells. The company starts a preclinical study program to develop the candidate.
- The company collects EUR 14 million in a directed share issue

2021-2022

- Preliminary safety and efficacy outcomes of the MATINS study are published for bexmarilimab
- The company arranges two share issues and collects a total of EUR 30.5 million
- Bexmarilimab receives a strong patent until 2037
- The company updates the extended clinical development program for bexmarilimab in early 2022
- The company agrees on EUR 30 million debt financing, of which EUR 10 million is withdrawn immediately.
- HIBISCUS trial related to the Traumakine candidate is closed



Source: Faron / Inderes

Company description and business model 1/3

High risk drug development company with large potential

Faron Pharmaceuticals is a clinical stage biopharmaceutical company founded in 2006 and listed on the AIM marketplace of the London Stock Exchange in 2015 and the Nasdaq First North marketplace in 2019. The company has three drug candidates all based on mastering immune modulation and, as a result, tacling unmet needs in cancer, preventing organ damage and treating blood count abnormalities. The company's goal is to build future immunotherapy, i.e. to bring new treatments to patients by affecting the immune system.

As a drug development company, Faron has no revenue yet. Due to the nature of drug development, the development of candidates can take up to more than a decade and requires considerable frontloaded investments in research. In the past, Faron has financed this development work through a number of financial arrangements and investors should be prepared for financing rounds also in the future.

Investment in Faron exposes the investor to binary risk due to the nature of drug development. If the efficacy and/or safety profile of a drug candidate in the development pipeline does not prove to be better than for existing drugs the drug development will halt and the project is highly probable to be written down. In other words, it is likely that the capital is either partially or totally lost or the capital is recovered several times over.

To offset the high risks, the sought-after profits are also high. There are hundreds of thousands of potential patients and drug sales per patient is tens of thousands of euros.

If the developed drug has a sufficient efficacy and safety profile, doctors and hospitals have a strong incentive to buy the drug for their patients, especially in affluent Western countries. Drugs are typically highly patent-protected and provide companies with sales of up to billions of euros and high margins. Faron's patent protection for the most important drug bexmarilimab is strong and valid until 2037.

Drug development requires considerable frontloaded resources

Faron's business model relies on patient studies (clinical trials), which are typically divided into three phases (table on right). The supervisory authority can also allow two steps to be combined. In the early development phase the safety and efficacy profile of the drug is not known and entry to the market is most unlikely. With favorable results the company can move to the next phase of the research, which increases the likelihood of market entry, as well as information on the safety and efficacy of the candidate. Increasing information and higher probability of success are likely to increase the value of the candidate as the probability of future cash flows materializing increases.

Correspondingly, if the research results are unfavorable, the value of the drug candidate may fall dramatically. The candidate may still be useful, e.g., for another indication, but in practice failed development will usually lead to abolishing the development of the candidate. Faron's development projects are presented on the next page.

Drug development phases

Early research | Patient tests | Commercialization

	Duration	Patients	Cost
Basic research and drug development	2-4 years	-	~10-20 MEUR
Preclinical phase - animal testing	1 year	-	~5 MEUR
Phase I – Safety	1-2 years	Dozens	~2-5 MEUR
Phase II* - safety and preliminary efficacy	2-3 years	Dozens - hundreds	~10-15 MEUR
Phase III – extensive safety and efficacy	2-3 years	Hundreds - thousands	~20-50 MEUR
Marketing authorization*	1 year	-	~0.01-0.1 MEUR
Post-marketing authorization, research and monitoring	The safety and efficacy of the drug is monitored throughout its sales. The authority may require possible further research.		

* In certain cases, conditional marketing authorization may be granted before completion of Phase III studies

Source: Davis FS, Biotech Forecasting & Valuation, 2016. / Inderes

Faron's clinical research program

Drug candidate	Indication	Research phase				Following events	Marketing authorization (Inderes' estimate)
		Preclinical	Phase I	Phase II	Phase III		
Bexmarilimab BEX monoclonal Clever-1 inhibitor	BEX monotherapy[1], solid tumors	MATINS				Next Phase II/III of the study is planned to start in Q1'23	2026
	BEX+PD-1 inhibitor, solid tumors	BEXCOMBO				Phase II is planned to start in Q1'23	2027
	BEX+PD-1 inhibitor Lung cancer (NSCLC)	BEXLUNG				First patient Q3'22	2028
	BEX+standard treatment Blood cancers (AML/MDS)	BEXMAB				First patient Q2'22 First results Q4'22	2028
Traumakine, interferon beta 1a	Acute respiratory distress syndrome (ARDS)					New information on the objectives of the research program is expected in 2022	–
	Ischemia-reperfusion						–
Haematokine AOC inhibitor	Chemotherapy Induced Neutropenia (CIN)					Application for clinical research authorization and study commencement during 2022	2029

Source: Faron / Inderes

1) Monotherapy refers to a drug being used without linking it to other drug treatments

Company description and business model 2/3

By the end of 2021, the company had spent EUR 116 million on R&D expenses and administration. According to the company the implementation of Faron's planned drug development program will require an additional EUR 165 million. Most of the funding is still unsecured. We believe that the company's options for financing research are advance payments related to licensing agreements, debt financing and share issues. The company has used all these financing channels in the past. We also expect that the company will continue to use all of these methods in the future. The success of the financing arrangements is therefore crucial to the implementation of the company's business model and strategy. We will review the financial situation and outlook of the company in more detail in the Financial position section.

Sales and profitability potential is considerable

Regulatory authorities can grant marketing authorization to a drug if the developing company is able to prove adequate safety and efficacy relative to the severity of the disease and alternative drugs or treatments. After obtaining marketing authorization, the drug is marketed and sold to hospitals and doctors who choose the drug they consider best for their patients. We believe the decision particularly in the Western countries is influenced by the safety and efficacy profile of the drug. In less prosperous countries, the price of the drug is a more important factor.

If drug development progresses favorably, the most likely scenario is that Faron signs a licensing agreement with a larger pharmaceutical company in Phase II/III of the research. The purpose of the agreement is to share research risk, costs and potential future returns with a larger partner. In addition, through licensing, Faron would gain access to a global sales and distribution network that it does not have itself. We do not consider building their own network a realistic option for a company of Faron's size that focuses on drug development. In licensing agreements, the drug developer typically receives a royalty payment of about 10-20% and possible milestone payments, depending on the progress of research and sales. The value of the contracts varies greatly and could amount to several billions of euros for a promising drug.

The licensing model does not require significant investments from the company, so license income can be expected to be almost pure profit. After a possible marketing authorization, the company's profitability potential is very promising.

Another alternative for cash flow materialization is an acquisition where most likely one of the major global pharmaceutical companies would acquire Faron or one of its drug candidates to complement its own drug portfolio. Large pharmaceutical companies have been very active in acquisitions and licensing agreements in the past few years. We list the actual contracts in more detail in the Valuation section.

Key options for Faron's commercialization and financing

Commercialization | Financing

	Benefits	Disadvantages	Suitability
Licensing agreement	No investment or new capabilities required	Giving up part of potential revenues	Very suitable and realistic
Commercialization on their own	No sharing of revenues	Requires a global sales and marketing organization	Not realistic
Selling the company or a drug candidate	Immediate realization of potential	Loss of future growth opportunities	Suitable and realistic
Advance payments of licensing agreement	No dilution of the share capital	Giving up part of potential revenues	Very suitable and realistic
Share issue	No need for repayment of capital	Share capital is diluted	Suitable and realistic
Debt financing	No dilution of the share capital	Relatively high interest costs	Limited suitability and realistic

Source: Inderes' estimate

Company description and business model 3/3

Three immune system modulators in the drug development pipeline

There are three drug candidates in Faron's development pipeline. They include research in different phases, summarized in the chart on page 6. Of Faron's three drugs the cancer drug bexmariliab (BEX) that has the highest commercial potential is key for investors.

In research funded by Faron itself, BEX is currently studied for the treatment of several solid tumors in the MATINS study as monotherapy. Monotherapy means that BEX treatment is not combined with other drugs. In BEXCOMBO the efficacy of BEX in combination with a PD-1 inhibitor is studied for different solid tumors. PD-1 inhibitors are oncology drugs already on the market that work against cancer by activating the immune system.

In the BEXMAB trial, BEX is combined with standard treatment (Azacitidine and/or Venetoclax) in the treatment of certain types of blood cancer (acute myeloid leukemia and myelodysplastic syndromes). In addition, an investigator-driven BEXLUNG trial is being launched in the US for combining BEX with a PD-1 inhibitor for the treatment of lung cancer. N this trial, Faron does not act as a financer and is not responsible for running the trial.

The other drug candidate, Traumakine, is a drug developed by the company to prevent multi-organ damage and excessive inflammatory responses. The Phase II/III HIBISCUS study with Traumakine was recently closed. The reason was the widely used anti-inflammatory corticosteroid treatment, which has been shown to negate the possible positive effects of Traumakine.

Currently, Traumakine is being studied in a preclinical project of the US Army and Department of Defense. In a war or combat situation, injuries can occur which result in so-called multiple organ dysfunction syndrome (MODS). The project explores the benefits of Traumakine in the prevention of this syndrome. Related to the Traumakine development program financed by Faron, the company has announced that it will re-evaluate its plans. We expect news about the development program during 2022.

The third candidate, Haematokine, promotes the expansion of bone marrow stem cells. It is being developed, e.g., for the treatment of chemotherapy-induced neutropenia (CIN). In neutropenia patients have less blood cells called neutrophils than normal due to cancer treatment. Pre-clinical studies are being conducted, which are expected to lead to approval of starting clinical development. If the authority grants the permission, we expect the clinical Phase I study to start later in 2022.

With Traumakine development in transition and the very early development stage of Haematokine, BEX takes center stage in Faron's story.

The benefits and uncertainties of Faron's drug candidates

	Benefits	Uncertainties
Bexmarilimab	Remarkably large market and possibility of new indications Mode of action differs from competing drugs Promising safety profile	The final efficacy of the mode of action against cancer is still unclear More proof is required, especially in terms of efficacy
Traumakine	Well known and good safety profile Many potential indications	Extensive use of corticosteroids limits the indication possibilities of the drug Due to past unfavorable results, the next project may be the last chance
Haematokine	Potential first-in-class drug for neutropenia and bone marrow transplant failure	Potential commercialization is still far from being achieved

Source: Inderes' estimate

Risk profile of the business model

Strict authority regulation in the industry makes drug development slow. On the other hand, when the company reaches the commercialization phase, the nature of the industry brings stability.

As a clinical stage biopharmaceutical company Faron is in the middle of the development. Lack of marketing authorizations still maintains the company's risk level very high.

Targeted market is very defensive. However, due to the company's development phase it does not yet benefit from this defensive nature.

The company does not have any revenue yet. If commercialization is successful, revenue will be very constant and diversified.

Administrative expenses are fixed and R&D costs are highly flexible. In the commercialization stage scalability would be excellent.

Administrative costs are moderate relative to the business potential, but high relative to the current cash position. Frontloading of costs keeps profitability weak for the time being.

Drug development requires a significant frontloading of capital. The targeted commercial phase may be very capital-light.

The company's cash assets are sufficient until Q1'23. The financing needs of the research program in the coming years is considerable and it probably requires equity financing

Source: Inderes

Investment profile

Investment profile

As a drug development company, Faron is focused on immunology and investigates its drug candidates for the treatment of cancer, preventing organ damage and improving the outcome of bone marrow transplants. There is a high demand for new and better drugs in the healthcare sector. The number of patients requiring drugs is also increasing, e.g., due to the aging population. In terms of the development phase, the company can be considered a mid-range drug development company, as the MATINS study is entering the last clinical phase, but the other studies are in clinical phase I or II.

As an investment opportunity, Faron has binary features meaning that if drug development is successful, profits can be significant. On the other hand, failures can lead to permanent loss of invested capital. We consider the company one of the riskiest listed Finnish companies. The high risk is counterbalanced by the possibility of high returns. If drug development and entry into market succeed optimally, the annual sales of the company's products would be counted in billions, of which Faron would probably receive hundreds of millions of very high margin license payments.

Faron's risk profile may gradually change. If, e.g., studies show undeniable efficacy and safety, the probability of obtaining marketing authorization rises immediately and the risk level decreases correspondingly. Undesirable results in turn lead to an opposite effect on the risk/return ratio. In these types of risk changes, the share's value may change significantly in a short period of time.

We feel Faron is suitable for a patient investors with high risk tolerance as part of a well-diversified portfolio. We recommend that investors who are interested in the sector, diversify their investment into several companies within the sector. This way the binary risk can be spread out while the expected return remains unchanged. An investor should be prepared to contribute to further financing of the company, e.g., through share issues, or alternatively accept a proportional dilution of their holding as the total number of shares increases.

Positive value drivers and opportunities

In the short term, positive share drivers may be positive results of the BEXMAB study focusing on blood cancers, the first results of which can be expected by the end of 2022. We estimate that this would have a strong positive impact on the company's value. Successful financing solutions, such as a possible listing in the US, can also be positive drivers.

In the longer term, value creation depends heavily on the results of efficacy and safety studies. In our opinion, especially the incipient studies combining BEX and PD-1 inhibitors are in key position.

Possible licensing agreements with large pharmaceutical companies also act as positive drivers. Of these, we consider agreements with manufacturers of PD-1/PD-L1 inhibitors most likely.

Risks and threats

The company's short-term risks include failure to obtain financing. We do not believe the risk of funding being completely exhausted is realistic.

However, financing conditions may be unfavorable to shareholders if, e.g., a share issue has to be carried out at a low price. As a result, the number of shares could increase significantly. In addition, unfavorable study results may act as negative drivers.

The company's plans for Traumakine are currently somewhat open, creating unclarity in the equity story. For Haematokine, a short-term negative driver would be a negative decision on the clinical trial application (IND).

Even after obtaining marketing authorization, e.g., safety-related issues may appear concerning the drug, which can lead to withdrawal of the marketing authorization. Only a share of drugs with conditional marketing authorization will receive final marketing authorization. However, for drugs that have undergone a normal development process, cancellation of marketing authorization is quite rare.

Investment profile

1. **Drug development company focused on immunology**
2. **High need for new drugs and strong growth outlook of the industry creates high market potential**
3. **Biggest potential in the cancer drug bexmarilimab**
4. **Potential for high returns, but also of permanent loss of capital**
5. **Drug candidates' entry to market is uncertain and takes time even when successful**

Potential

- 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 medicines whose annual revenue potential is calculated in billions and Faron's cash flow in hundreds of millions
- Potential can also materialize through a licensing agreement or acquisition

Risks

- Drug development requires substantial frontloaded 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

Source: Inderes

Bexmarilimab 1/6 - mode of action

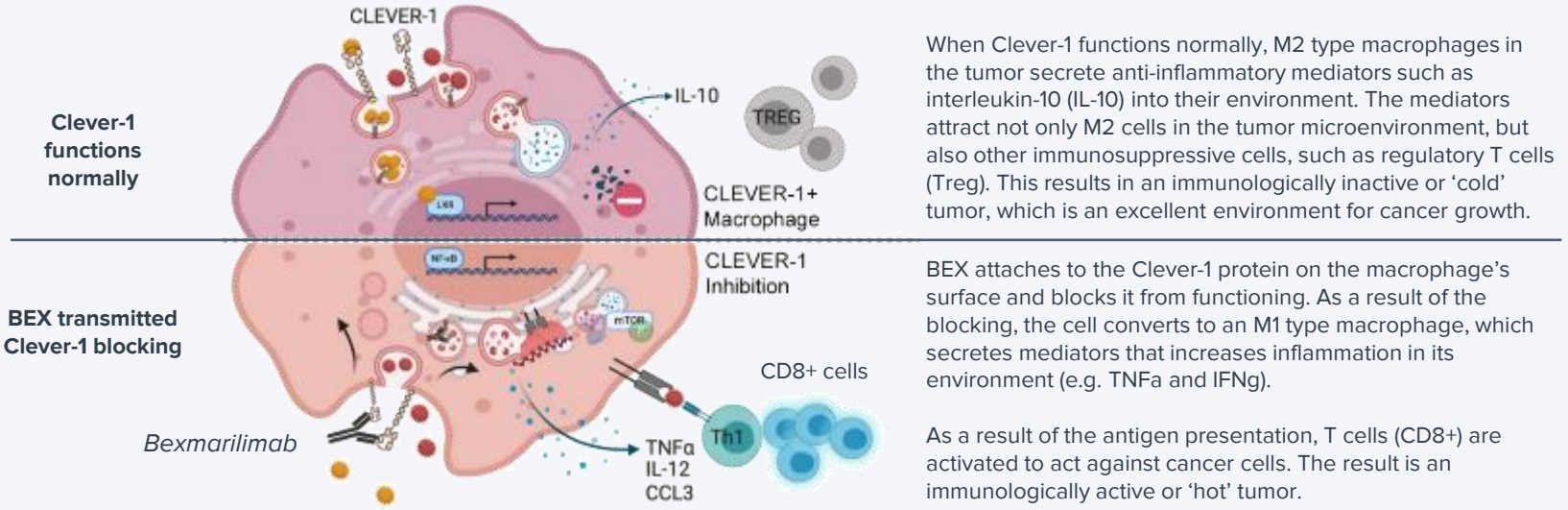
Bexmarilimab turns the immune system against cancer

Cancer is still largely treated with decades or centuries old methods: Surgery, radiotherapy and cytotoxic treatment. Despite new breakthrough treatments, such as immuno-oncology drugs, based on activating the immune responce, the prognosis for cancer is generally poor. Therefore, the need for new cancer drugs remains high.

BEX is an immuno-oncology and biological drug (monoclonal antibody) developed to activate the immune system to start targeting cancer cells. BEX is administered intravenously in hospital, and it spreads to the rest of the body through blood circulation.

The drug candidate attaches to the Clever-1 protein on the cell surface and blocks it from functioning. Key to BEX's functionality is its attachment to the Clever-1 macrophages in the tumor microenvironment. Macrophages are a form of inflammatory cells that cancer cells utilize by converting them to M2 macrophages, or anti-inflammatory cells. This allows cancer cells to hide from the immune system and change the tumor's inflammatory environment in a way that promotes cancer growth (see illustration on next page).

When BEX blocks Clever-1, the macrophages are instead converted from M2 to M1 type cells that secrete inflammatory mediators and thus increase the inflammatory response. As a result of this conversion, the immune system is activated, and so-called antigen presentation takes place. This means that the immune system recognizes the structures of cancer cells as foreign to the body and therefore tries to destroy and remove cancer cells. As a result of the antigen presentation, so-called cytotoxic or cell-destroying T cells (CD8+) attack the cancer cells that are foreign to the immunological defense, destroying them. BEX's mode of action is illustrated in the image below.



When Clever-1 functions normally, M2 type macrophages in the tumor secrete anti-inflammatory mediators such as interleukin-10 (IL-10) into their environment. The mediators attract not only M2 cells in the tumor microenvironment, but also other immunosuppressive cells, such as regulatory T cells (Treg). This results in an immunologically inactive or 'cold' tumor, which is an excellent environment for cancer growth.

BEX attaches to the Clever-1 protein on the macrophage's surface and blocks it from functioning. As a result of the blocking, the cell converts to an M1 type macrophage, which secretes mediators that increases inflammation in its environment (e.g. TNFa and IFNg).

As a result of the antigen presentation, T cells (CD8+) are activated to act against cancer cells. The result is an immunologically active or 'hot' tumor.

Image source: Faron / Inderes

Bexmarilimab 2/6 - mode of action

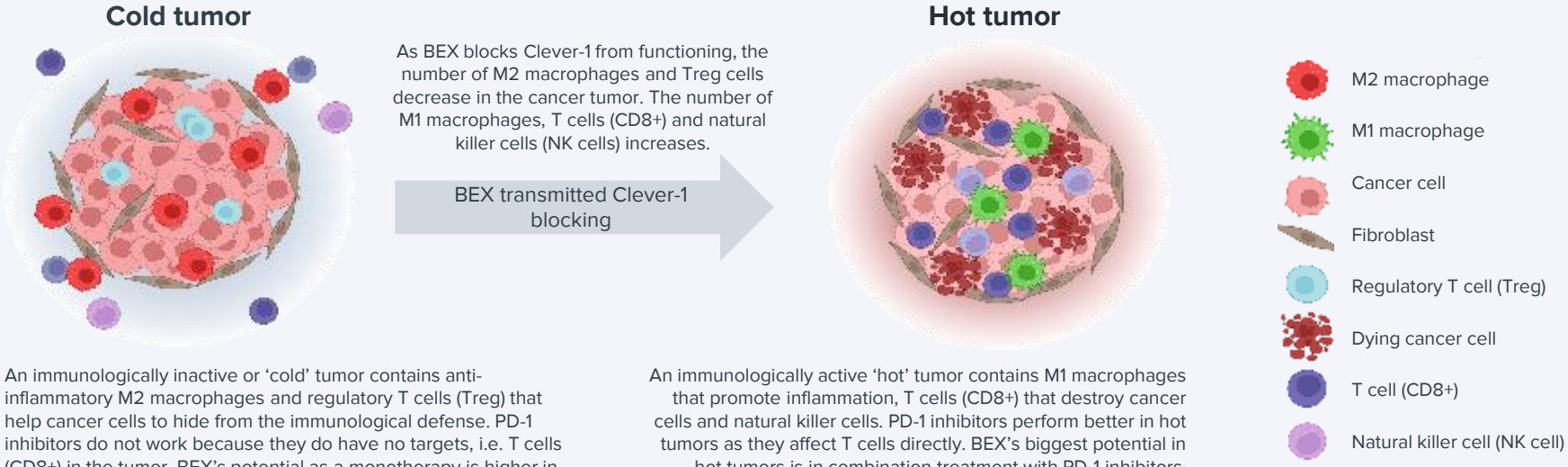
Potential in combination treatment with immune checkpoint inhibitors

There is a class of immuno-oncology drugs on the market, known as immune checkpoint inhibitors (CPI). Unlike BEX, these drugs directly affect T cells rather than macrophages, activating them to act against cancer cells. The most essential ones are called PD-1 inhibitors.

To enter the market, BEX must be more effective than the existing drugs or be equally effective with fewer harmful side effects. According to current scientific data, BEX's ability to activate T cells is lower than for PD-1 inhibitors, but again BEX targets macrophages. Therefore, when used as a stand-alone treatment, BEX might not have an advantage compared to its competitors in a situation where the tumor is immunologically active or 'hot' (see illustration below). In cotrast, in an immunologically inactive 'cold' tumor, BEX can be more effective than its competitors because the number of T cells is low and the number of macrophages is high, and thus PD-1 inhibitors do not have a target in the tumor.

BEX's mode of action that differs from other immune checkpoint inhibitors provides the possibility to use it as a combination treatment with, e.g., PD-1 inhibitors. In theory, the different characteristics of the drugs could complement each other, which would allow the combination to produce a more effective T cell response to destroy cancer cells.

The hypothesis is that BEX treatment could turn a cold tumor with no T cells to a hot tumor and increase the number of T cells in the tumor. The PD-1 inhibitor could then activate the higher number of T cells in a hot tumor to be effective against cancer (see diagram on next page). Faron aims to test the efficacy of this combination for solid cancers in the BEXCOMBO study. In addition, the BEXLUNG study examines the efficacy of the combination in an investigator-driven study of non-small-cell lung cancer (NSCLC), which means that the study is not initiated or funded by Faron but by a clinical oncologist/research institute.



An immunologically inactive or 'cold' tumor contains anti-inflammatory M2 macrophages and regulatory T cells (Treg) that help cancer cells to hide from the immunological defense. PD-1 inhibitors do not work because they do have no targets, i.e. T cells (CD8+) in the tumor. BEX's potential as a monotherapy is higher in cold tumors, as existing immune checkpoint inhibitors do not work well in this environment.

An immunologically active 'hot' tumor contains M1 macrophages that promote inflammation, T cells (CD8+) that destroy cancer cells and natural killer cells. PD-1 inhibitors perform better in hot tumors as they affect T cells directly. BEX's biggest potential in hot tumors is in combination treatment with PD-1 inhibitors.

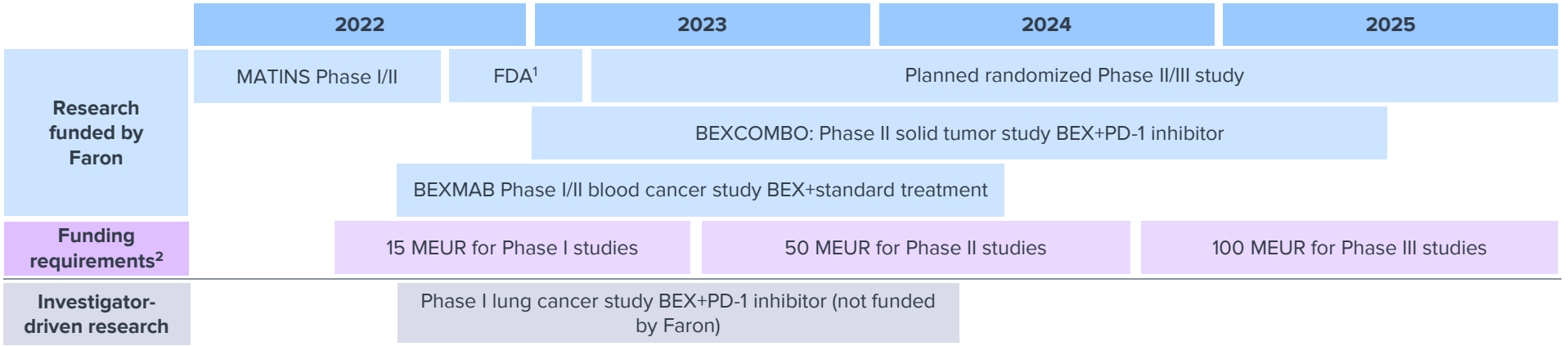
Bexmarilimab as a combination treatment and research program

+++++ Significant impact - No effect

Complementary properties of bexmarilimab and PD-1 inhibitors

	Macrophage activation	T cell activation	Inflammatory mediators	Innate immunity	Antigen presentation
BEX monotherapy	+++	+	+++	++	++
PD-1 inhibitor	-	++++	+	-	+
BEX+PD-1 inhibitor	+++	+++++	++++	++	+++

Bexmarilimab's clinical trial program and schedule



1) the Company discusses with the FDA (Food and Drug Administration) how to implement the continuation of MATINS

2) Faron's assessment of planned studies moving into the commercialization phase

Source: Faron / Inderes

Bexmarilimab 3/6 – research results

MATINS study refers to the safety and initial efficacy of BEX

The MATINS study is Faron's first Phase I/II BEX study on humans. It will study the efficacy and safety of BEX as a monotherapy for solid tumors. The study has been designed primarily as a safety study, which also provides a preliminary study of the efficacy with a limited number of patients suffering from end-stage cancers. All patients who participate in the study receive BEX and the study has no control group. Due to the absence of a control group, no strong conclusions can be drawn on the efficacy of the drug.

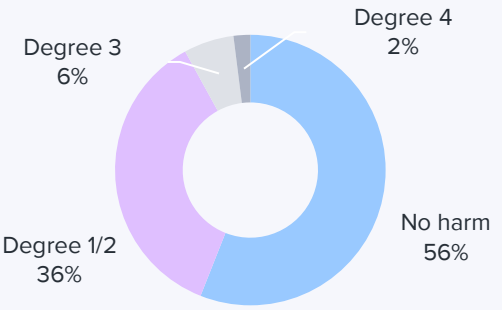
The side effects associated with the immune response were less common than those seen in similar studies with PD-1 inhibitors. There were many other side effects but nearly all were mild and usually linked to the cancer. To sum up, at this stage we can conclude that BEX appears to be safe and well tolerated.

The study included patients with 11 different types of cancers (ten patients per cancer type). In some types of cancers BEX was observed to have no effect, but 30-40% of patients with skin cancer, gallbladder cancer, gastric cancer, hepatic cancer, and breast cancer experienced positive development. Some patients could therefore benefit from the drug, but final conclusions cannot be drawn before further studies.

The study also found that patients who may have benefited from the drug, had a lower concentration of certain inflammation-promting signaling molecules (IFNg, TNFa, IL6) in their blood compared to those who did not benefit from the drug. To our understanding, the company is assessing together with the FDA (U.S, Food and Drug Administration), the potential to use these signaling molecules as biomarkers for further patient selection. Research has shown that finding and using biomarkers will improve the likelihood of successful drug development. Thus, authorization to use these biomarkers would be positive for Faron.

During H2'22, Faron will discuss the continuation of the MATINS study with the FDA. We believe Faron will propose continuation of the study as a randomized Phase II/III study to the FDA. The second option is to continue the study as a single-arm study, i.e. without a control group. The first option is somewhat higher in cost and takes a little longer, but, in return, provides better data on the efficacy and safety of the drug making it more likely to obtain marketing authorization. We estimate that favorable results from a randomized study could lead to marketing authorization in 2026.

BEX's side effects in MATINS study



Scale of side effects 1 (mild) to 5 (severe)

BEX efficacy in the MATINS study

Indication	Disease under control*
Gastric cancer	3/10
Hepatic cancer	4/10
Skin melanoma	3/10
Breast cancer	4/10
Bile duct cancer	3/10
Colon cancer	2/7
Pancreatic cancer	0/10
Ovarian cancer	0/10
Ocular melanoma	0/10

*Share of patients with favorable development
Source: Faron / Inderes

Bexmarilimab 4/6 - industry and competition

Drug market for cancer treatment

In the broad sense, the key market for Faron and its main drug candidate, BEX, is the drug cancer market. Its size is estimated to have been USD 135 billion in 2020 and CAGR growth 7.5% until 2030, when the size of the market is estimated to reach 274 billion (Allied Market Research).

The medium- and long-term drivers of the cancer drug market are increase in cancers as the population ages, introduction of new drugs to the market and additional indications for existing drugs. The improvement in outcomes of treatment will also increase the market, as the number of patients with long-term illnesses requiring continuous medication increases while cancer mortality decreases.

From a profitability point of view, the median gross margin of mature biotechnology industry companies has been 73.5% and EBIT margin 29.3% over the past ten years (Bloomberg). Mature companies in the sector are therefore highly profitable. On the other hand, companies in the development phase are generally loss-making as their EBIT margin has been negative every year for the past ten years. As for Faron, weak profitability is explained by frontloaded R&D costs.

The market for immune checkpoint inhibitors creates a framework for the potential of BEX

BEX's main reference framework is immune checkpoint inhibitors (CPIs) that belong to immuno-oncology drugs and that directly affect cancer cell destroying T cells. CPI drugs are estimated to be suitable for approximately 40-50% of all cancer patients. The size of the CPI market in 2020 was about USD 30 billion (Allied Market Research). The market is expected to grow to 141 billion by 2030 (CAGR 16.8%).

After entering the market in 2011, CPIs have substantially changed the pharmacological therapies for cancer. CPIs are also a commercially valuable drug group and the leading drug Keytruda (pembrolizumab) was the third highest selling drug in the world in 2021 (USD 17.2 billion in 2021). CPI drugs are very expensive and the treatment of one patient in the US is estimated to cost USD 0.1-0.15 million.

There are currently 9 CPIs on the market and several molecules in clinical trials that can gain access to the market in the next few years. We expect competition to intensify especially in PD-(L)1 inhibitors, as there is a multitude of them in drug development pipelines. On the other hand, patents of older drugs will start to expire during the current decade.

Size of target market, USD billion

	Current market	Growth	Potential
Pharmacological therapies for cancer	135	7.5%	274
Immune checkpoint inhibitors	30	16.8%	141

Market growth drivers and trends

The number of cancers is expected to increase by 47% by 2040 (WHO)

New better drugs entering the market and new indications for existing drugs will increase the market

The aging population increases the number of cancer patients

Thanks to improving treatments, more people survive longer with cancer

Source: Allied Market Research, Inderes, Faron

Bexmarilimab 5/6 - industry and competition

BEX's potential as a monotherapy is limited

As a single agent therapy, i.e. a monotherapy, BEX acts on the immune checkpoint inhibitors (CPI) market. We estimate that as a single agent BEX's position in this market is not particularly strong at the moment, as its efficacy in activating T cells seems to be weaker than that of its competitors. BEX's greatest potential as a monotherapy is directed at immunologically inactive, i.e. 'cold' tumors with low T cell counts where other CPIs would not work well. The share of these tumors of all tumors varies by their type and is on average about 20%.

According to Faron, BEX monotherapy is planned as 3rd and 4th line treatment for patients for whom previous treatments have not worked or have stopped working after the initial treatment. This limits the number of patients who may benefit from BEX monotherapy.

BEX has the greatest potential in combination treatments

CPI monotherapy is only effective for an average of some 12.5% of patients depending on the type of cancer. To improve efficacy, combinations of drugs with different modes of action, such as ipilimumab+nivolumab (CTLA4 & PD-1 blockade), have been introduced. Combinations have produced better efficacy results, but also caused more serious side effects.

In early 2022, the FDA granted marketing authorization to a new drug relatlimab, whose authorization is based on its dosage in combination with nivolumab. Based on ongoing clinical studies, we estimate that combined drugs are a clear future trend in immune checkpoint inhibitor treatments. Their relative share is expected to increase considerably at the expense of monotherapies due to their allegedly higher efficacy. BEX's mode of action theoretically offers a good opportunity to use it as a combined drug.

BEX's main indications and total addressable market (TAM)

CPI drugs are currently used for the treatment of more than ten different types of solid tumors. These drugs have been authorized for dozens of different indications (in this case types of cancer). In addition to solid tumors, CPI drugs are studied for the treatment of blood cancers such as acute myeloid leukemia.

We believe Faron will have to make strategic choices as to which indications BEX should be developed for with the available resources. We have listed the indications we find most potential in the table on the right-hand side. The table also shows the estimated number of patients that we believe could initially be treated with BEX. These indications may change as more precise study plans are published. In the long term, the company can also expand to new indications.

BEX's likely indications and market size

Indication	Mono-/ combination therapy	Incidence	Target group
Skin cancer	Monotherapy	178 100	3 200
	BEX + PD-1-inhibitor	178 100	19 600
Bile duct cancer	Monotherapy	15 000	3 800
Head and neck cancer	BEX + PD-1-inhibitor	147 000	20 000
Urothelial cancer	BEX + PD-1-inhibitor	208 000	9 000
Acute myoloid leukemia	BEX + Standard care	44 000	8 800
Myelodysplastic syndrome	BEX + Standard care	84 000	8 400
Lung cancer	BEX + PD-1-inhibitor	399 000	110 000

Source: Global Data, Faron, Inderes

Immune checkpoint inhibitors on the market

Drug	Marketing name	Target molecule	Sales start
Ipilimumab	Yervoy	CTLA-4	2011
Nivolumab	Opdivo	PD-1	2014
Pembrolizumab	Keytruda	PD-1	2014
Atezolizumab	Tecentriq	PD-L1	2016
Avelumab	Bavencio	PD-L1	2017
Durvalumab	Imfinzi	PD-L1	2017
Cemiplimab	Libtayo	PD-1	2018
Dosdarlimab	Jemperli	PD-1	2021
Relatlimab	Obdualag	LAG-3	2022

Source: Inderes

Bexmarilimab 6/6 - industry and competition

In terms of monotherapy, BEX's potential target group is based on third treatment line patients who have not benefited from previous treatments. In head and neck cancers (BEXCOMBO study) and non-small cell lung cancers (BEXLUNG) we assume that BEX is used primarily as first line treatment for patients receiving a PD-1 inhibitor. For acute myeloid leukemia the group of patients is assumed to be those receiving the standard drug venetoclax.

Competitors' R&D pipelines will tighten competition in the future

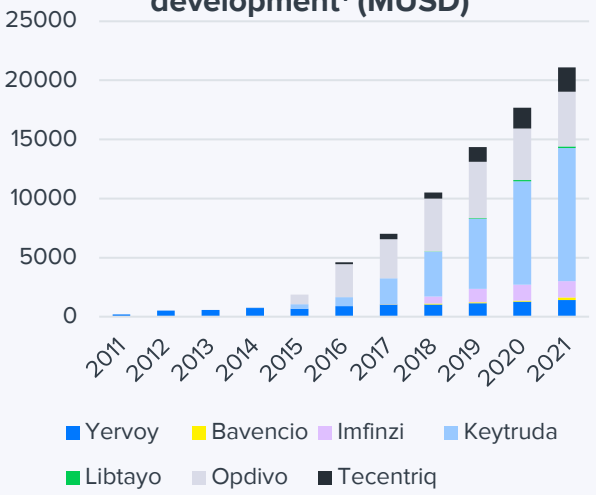
Drug development companies have numerous CPI candidates in their research pipelines. In particular, an abundance of new PD-1 and PD-L1 inhibitors are expected to enter the market. Price competition is also expected to intensify as alternative drugs increase and the patents of existing drugs start expiring at the end of the decade. However, we believe that BEX is relatively well protected from competition from PD-1 inhibitors due to its differing mode of action. On the other hand, the industry's pipeline also include candidates affecting myeloid cells (e.g. macrophages) in the industry's development pipeline, such as TREM2 (Phase I), ILT2 (Phase I/II) and ILT4 inhibitors (Phase I/II). These candidates are more direct competitors to BEX. Competitors' market access is subject to the same uncertainties as BEX and other drug candidates.

Acquisitions in the CPI market

Companies developing CPI drugs have also attracted interest as acquisition targets due to high sales potential of the drugs. In 2021, Pfitzer acquired Trillium for USD 2.11 billion. Trillium is developing two CPIs (SIRPa-CD47 inhibitors) in clinical phase I/II. In another major acquisition, Gilead acquired Forty-Seven in 2020, with a purchase price of USD 4.9 billion Forty-Seven, as its name suggests, is also developing a CD47 inhibitor. Their phase Ib study results were published at the time of the transaction. Both companies are developing their drugs for treating blood cancers (AML/MSD).

We do not believe that any direct conclusions should be drawn from these acquisitions regarding the value of Faron, as CD47 is considered a well-researched and confirmed target for drug efficacy in the scientific community. Clever-1, on the other hand, has not been extensively studied and we believe its potential as a target molecule is much more uncertain than CD47. We will examine actual pharmaceutical company and drug candidate acquisitions and licensing agreements more closely in the Valuation and recommendation section.

CPIs on the market – sales development[1] (MUSD)



Source: Bloomberg
1) Sales in the US market

Traumakine and Haematokine 1/2

Organ dysfunction preventer Traumakine

Traumakine is an intravenous formulation of interferon beta-1a that is equivalent to the human body's IFNb-1a protein. Traumakine increases the amount of the enzye CD73 on the endothelial cells covering the inner surfaces of blood vessels. CD73 in turn increases adenosine concentration of blood, which is an effective anti-inflammatory agent. Faron has developed Traumakine for acute respiratory distress syndrome (ARDS) and ischemic (inadequate blood circulation in tissues) and hyperinflammatory (excessive inflammatory response) conditions.

Faron has carried out several clinical studies on Traumakine during its history, including phase III INTEREST study that was closed in 2018 and phase II/III HIBISCUS study closed in March 2022 that investigated prevention of acute respiratory distress syndrome related to COVID-19. The main reason for Traumakine's difficulties has been the widespread use of anti-inflammatory corticosteroids, which has inhibited possible beneficial effects of Traumakine. Currently, the company is conducting a preclinical study, supported by US Air Force and the U.S. Department of Defense, to prevent multiple organ dysfunction syndrome (MODS) after battlefield trauma. Traumakine's development is currently in transition following the setbacks of the studies in ARDS and COVID-19. We wait for further information on the plans of Traumakine from the company during 2022.

Traumakine has competitors with different administration methods

In addition to Faron, other companies are developing interferon beta 1a therapies but with different routes of administration, i.e., subcutaneous or inhaled. Traumakine on the other hand, is administered intravenously, meaning it is injected directly into the blood stream. At this stage, it is unclear which administration method is the best. To our knowledge, the competitors, just like Faron, have had difficulties with corticosteroids covering the potential benefits of the drug.

With the current uncertain development trend for Traumakine, we make no detailed market analysis of the drug candidate at this stage or include Traumakine in our estimates or valuation model.

Stem cell expander Haematokine is entering the clinical phase

Unlike the other two candidates, Haematokine is a conventional drug, i.e. a chemically synthesized small molecule. Haematokine works by blocking AOC3-mediated production of hydrogen peroxide (H2O2), which is a strong inflammatory neurotransmitter. Haematokine increases the expansion of hematopoietic stem cells in the bone marrow. The drug is primarily developed for treatment of chemotherapy-induced neutropenia, i.e. low concentration of neutrophils in blood. In addition, the company reports the treatment of bone marrow transplant failure and possibly blood cancers as potential indications. However, we expect the company to focus on the treatment of neutropenia in the next few years.

Summary of Traumakine and Haematokine

	Traumakine	Haematokine
Mode of action	Increases CD73 expression on vascular endothelium -> the concentration of anti-inflammatory adenosine increases locally	Blocks AOC enzyme from functioning, which reduces production of hydrogen peroxide and increases stem cell growth
Indications	Potential for many indications with a risk of organ failure due to excessive inflammatory response.	Blood disorders, such as neutropenia, associated with bone marrow transplants
Safety and efficacy	Traumakine has been studied in several clinical trials. Its side effects are mild. Convincing proof of efficacy is still lacking.	Haematokine has previously been studied in a phase II study, which is a positive signal of its safety. There is no data yet of efficacy in patient tests.

Source: Inderes' estimate

Traumakine and Haematokine 2/2 – industry and competition

Faron acquired the rights to the drug candidate in 2020 and plans to start Phase I clinical trial in late 2022. We understand that this molecule has already been in Phase II clinical trials carried out by different companies for other indications. Therefore, there is already preliminary information on the safety of the drug candidate which increases the likelihood of successful drug development to some extent. We expect the company to tell more about its plans for Haematokine in H2'22.

Haematokine is an early-stage candidate for blood disorders

Haematokine is primarily developed for treatment of chemotherapy-induced neutropenia. There are 650,000 patients per year in the US, of whom 228,000 are at high-risk of developing neutropenia and 240,000 are medium-risk patients. About 95% of this population is treated in a preventive manner with G-CSF products (granulocyte colony stimulating factor). In 2021, this market amounted to EUR 2.3 billion (Global Data). There are many G-CSF manufacturers on the market and to our knowledge the products have lost patent protection. There is a high unmet need on the market for fast-acting drugs with less side effects in long-term use.

Faron has reported that Haematokine has previously been in clinical Phase II studies for another indication. The company has stated that the previous failure of the drug was not due to side effects it caused. Based on this we can provisionally estimate that the safety profile of the candidate is promising, as general side effects are typically exposed in Phase II studies. More far-reaching conclusions on the characteristics of the candidate cannot yet be drawn, as the clinical research program of Haematokine is planned to start later this year.

In our opinion, Haematokine's potential market is attractive and drug development for hematological diseases has historically been relatively successful. However, due to the early development stage possible sales of the drug are in the distant future and we estimate a marketing authorization in 2029.

Drug market for neutropenia (USD bn)

	Current market	Growth	Potential
Total market	12.6 (2019)	5.4 %	19.3 (2027)
G-CSF	2.3	-3.9%	1.7 (2028)

Market growth drivers and trends

- Growing cancer numbers as the population ages increases demand for bone marrow transplants
- Need for faster impacting drugs with less side effects
- Possibility to research Haematokine for other indications

Source: Inderes, Faron, Global Data

Strategy

Market size and trends

Target market

Immune checkpoint inhibitor market, 2020 — **EUR 30 billion**

Growth rate, 2020-2030 CAGR — **16.8%**

Market trends and growth drivers

New better drugs entering the market and new indications for existing drugs will increase the market

The aging population increases the number of cancer patients

Thanks to improving treatments, more people survive longer with cancer and use drugs longer

Strategic focus areas

1. **Focus on commercialization of innovations in immunology**
2. **Expansion and funding of the Bexmarilimab research program**
3. **Strategic assessment of the development of Traumakine**
4. **Starting a clinical study with Haematokine**
5. **Commercialization based on licensing agreements and licensing model**

Key elements of strategy implementation

Near future, 1-2 years

- Success in financing solutions is essential for implementing the planned research program
- licensing agreements may become topical to promote research
- Strategic decision to develop or terminate Traumakine
- First steps in clinical development of Haematokine

The next 5 years

- Completion of the planned research program
- Commercialization of drugs with partners if drug development is successful
- Starting possible new studies, e.g., for new BEX indications

Source: Inderes

Financial position 1/2

Historical earnings development

Faron's result has been negative throughout the company's existence due to its business model and frontloaded research investments. Losses accumulated since 2006 stood at EUR 116 million in the 2021 financial statements. We expect that cash assets have been used particularly for Traumakine's Phase III studies which produced unfavorable results, however. The company has not had any significant revenue. Other operating income consists, e.g., of grants from the EU or Business Finland.

The expense structure is characterized by R&D investments

The majority of Faron's expenses are R&D costs that have varied between EUR 9-19 million per year in 2016-2021. R&D costs include costs for outsourced clinical trials (2021: 3.5 MEUR), materials and services (9.4 MEUR) and personnel costs related to R&D (3.3 MEUR). R&D costs vary considerably year by year due to fluctuations in outsourced research costs and purchased services. Another expense category reported by the company is administrative expenses (2021: 9.9 MEUR), which includes, e.g., legal and other administrative expenses and personnel expenses not related to R&D. Administrative expenses were exceptionally high in 2021 due to legal expenses, but correspondingly other operating income was high.

Cash flow is based on financing

Faron's operational cash flow has been heavily negative (2021: -22.2 MEUR) in the absence of revenue while expenses have accumulated. The cash position has been balanced with financial arrangements, with share issues being the most important. In 2021-2022, the company collected a total of EUR 30.5 million in three issues. Investments are of marginal importance in the changes of company cash flow.

Financial position

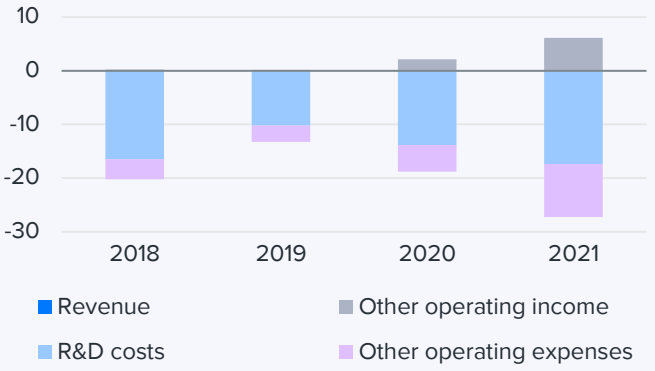
Based on the 2021 financial statements, Faron's balance sheet is typical considering the company's profile. The company had only EUR 0.2 million in tangible assets. Intangible assets of EUR 0.9 million consists mainly of capitalized costs related to preparation, registration and granting of patents, which will be depreciated over 10 years during their expected useful life. The company's receivables (5.1 MEUR) are mainly explained by advance payments (3.8 MEUR) related to clinical research service contracts. At the end of 2021, Faron had EUR 6.9 million cash at hand and in banks.

On the liabilities side of the balance sheet, the company had equity of EUR 2.9 million. Interest-bearing liabilities totaled EUR 3.5 million, most of which are R&D loans from Business Finland. These loans are subsidized, i.e. they have a lower interest rate than non-concessional loans. The company has EUR 6.8 million in non-interest-bearing loans of which EUR 2.2 million is accounts payable and the rest are mainly periodization related to research expenses.

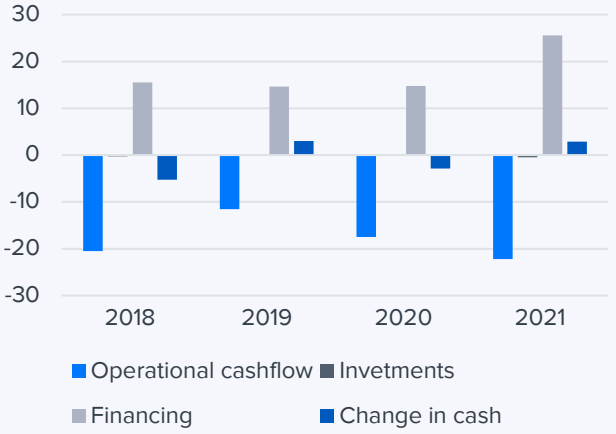
Cash position needs to be strengthened in coming years

Faron's cash flow is expected to be clearly negative also in the coming years because the company plans to expand its clinical research program. Apart from the expected higher number of patients in the MATINS study, the expansion also concerns the initiation of entirely new BEXMAB and BEXCOMBO studies.

Operating income and expenses, MEUR



Cash flow development, MEUR



Financial position 2/2

On top of these are Traumakine and Haematokine research programs. Faron's balance sheet will require considerable capital injections. According to the company's own estimate, the financing requirement for its research program is around EUR 165 million to achieve marketing authorization in several cancers. Over the past year, the availability of risk financing for life science companies such as Faron has become more difficult due to increasing required returns on the capital markets. In our view, the size of the clinical program can be scaled down in case the funding arrangements do not pay off as planned.

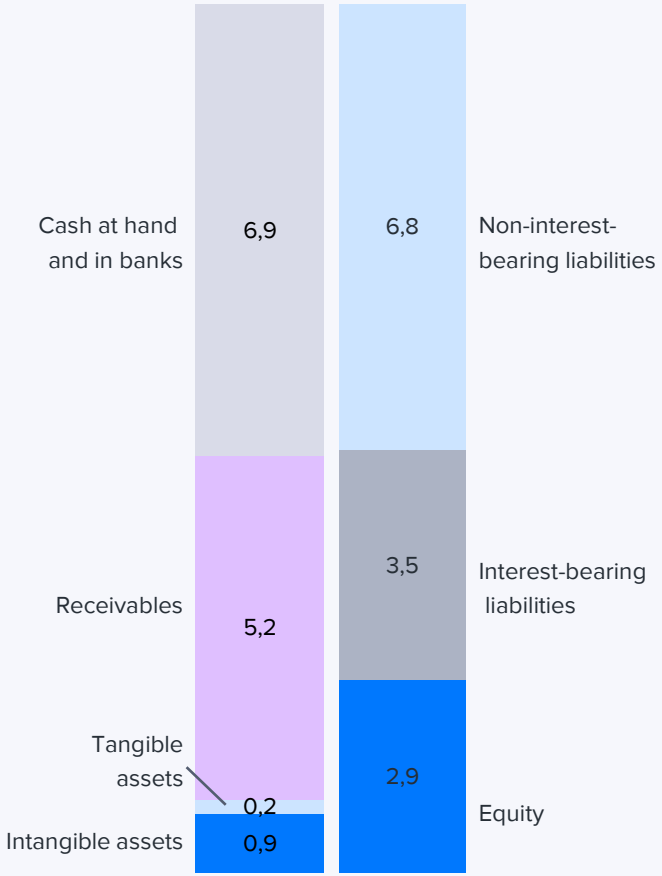
Agreed on and possible financing arrangements

In early 2022, the company announced a new EUR 30 million debt agreement with IPF Partners. IPF is a Swiss company focused on alternative financing arrangements for the healthcare sector. Faron immediately withdrew EUR 10 million of the loan. Under the terms of the agreement, Faron can withdraw the next EUR 5 million if it succeeds in raising equity financing of at least EUR 15 million by the end of Q1'23 and has received FDA approval for the BEX study. Withdrawal of the remaining EUR 15 million will depend on IPF's internal assessment by H1'23. The interest rate of the agreement is 3 months Euribor +9%. Faron has stated that the current funding is sufficient until Q1'23.

Faron has said that it is recruiting personnel for its US office in Boston. In addition to the personnel involved in clinical research, the company has recruited IR staff. The company's management has indicated that a listing on the stock exchange in the US is one of the possibilities for financing the company. In addition, the company has the possibility to apply for funding from its current marketplaces, London's AIM stock exchange and Nasdaq First North. In summer 2022, the company announced it had organized a directed EUR 5 million issue, which we believe covers one-third of the EUR 15 million required by the loan agreement. We estimate that Faron will try to collect the remaining EUR 10 million of the loan terms with a share issue in Q3'22-Q1'23. If the share issue is implemented, we estimate that it will be carried out with a discount of about 10%. The latest share issue was carried out at market price.

The third possible source of financing for the company is global or regional licensing agreements with large pharmaceutical companies. We believe this is relevant for phase II/III studies where a partner would take over part of the research costs and upon releasing the drug to the market would manage the sales, marketing and distribution. Faron's first trial progressing to phase II/III is MATINS, which studies the efficacy of BEX as a monotherapy for end-stage cancer patients. We consider a licensing agreement possible for MATINS. However, we consider the final phase of the BEXCOMBO study (BEX combined with a PD-1 inhibitor) to be more likely to be the subject of a licensing agreement. Similarly, in future phases of BEXMAB (BEX combined with standard treatment) and BEXLUNG (BEX combined with PD-1 inhibitor), we see strong potential for an agreement.

Balance sheet at the end of 2021



EUR 13.2 million

Estimates 1/5

Faron's estimates focus on the future of BEX

Of Faron's three drug candidates, BEX's estimates are by far the most important in terms of share return and the company's future. BEX can become widely used in several indications (cancer types). The number of potential patients is high, especially in combination treatments. The sales prices of drugs in the CPI category are very high and the achievable royalties are also typically high. In our estimates Faron's revenue is generated through royalty payments. We expect the international partner to handle sales, marketing and distribution while Faron receives a percentage-based royalty payment and possible milestone payments for drug development and sales progress. We have collected the key assumptions used in the estimates in the adjacent tables.

There is also a high potential for Haematokine due to high patient numbers and a clear unmet medical need. However, Haematokine's clinical program is only planned to start in late 2022, so the road to market is long and possible future cash flows are far in the future. We are not including Traumakine in our estimates at this stage. The safety profile of the drug is good, but sufficient proof of its efficacy has not been provided. We expect the company to assess the future of the candidate during 2022 and report on the results of the assessment and Traumakine's research program in greater detail later in the year. We will update our estimates as Traumakine's planned indication is specified.

In our view, the uncertainty and risks related to Faron's future estimates can be divided into two categories: 1) uncertainty of the success of drug development; and 2) uncertainty of the materialization of revenue from drug sales after a possible success.

Success of drug development involves a significant binary risk

The risk associated with drug development is binary in nature, i.e., one of two possible outcomes materializes and any intermediate forms are unlikely. Unfavorable research results may result in the project being terminated, so the value of the drug candidate may reset to zero. On the other hand, successful development and market entry can mean significant cash flows for the investor.

We assess the likelihood of success by mirroring the characteristics of the company's drug candidates and their development stage with research literature[1] that describes the average success rates of drug development. The average probability of passing Phase I has historically been 60%, Phase II 36% and Phase III 63%. The post Phase III regulatory assessment is passed by 88% and will eventually receive marketing authorization. In addition to these figures, the probabilities are shaped by many variables. These include, e.g., the indication, whether the drug is biological or small molecule, and whether the research has biomarkers available to select patients.

Timing and probabilities of marketing authorizations

Study	Timing of marketing auhtorization	Likelihood of marketing authorization
MATINS	2025	35 %
BEXCOMBO	2027	28 %
BEXLUNG	2028	23 %
BEXMAB	2028	25 %
Heamatokine	2029	21 %

Source: Inderes' estimate

Indications of BEX and Haematokine, peak annual sales and revenue (MEUR)

Indication	Number of patients	Peak sales	Royalty percent	Faron's revenue
Skin cancer	19 600	100	20 %	20
Bile duct cancer	3 800	77	20 %	15
Head and neck cancer	20 000	86	20 %	17
Urothelial cancer	9 000	38	20 %	8
Lung cancer	37 000	86	20 %	17
Acute myoloid leukemia	7 000	34	20 %	7
Myelodysplastic syndrome	8 400	36	20 %	7
Neutropenia	468 000	106	20 %	21
Total	572 800	562		112

Lähde: Inderes, Faron, Global Data

* We believe, the one-year peak sales of Faron's products and the revenue resulting from royalty payments will occur around 2035-2037 before patent protection ends

[1]Source: David, Robeu, Matthews. Biotech forecasting & valuation, 2016.

Estimates 2/5

We have further fine-tuned these probabilities based on information available on the drug candidates. We believe that especially the positive safety data collected in BEX studies increases the likelihood of the company being able to continue with the next clinical phases of the research.

Customary risk associated with the business is non-binary

In addition to the binary R&D risk, we believe the company has customary business risks. This uncertainty relates to the achievement of market shares and realized sales prices. In addition, the terms of any licensing agreements, such as the size of the license shares, vary considerably. On the other hand, the uncertainty related to the business is lowered by the high defensiveness inherent to the industry and the strong cash flows generated by successful market entry.

Assessing revenue

We assess Faron's sales by evaluating patient numbers, drug sales prices, achievable market shares, and royalty percentages. We estimate the start of sales based on the clinical phase of the research program. The revenue estimates have then been multiplied by the estimated probability of market entry. The presented estimates are risk adjusted with the R&D risk.

For drugs used to treat serious diseases, it is possible that the authorities grant conditional marketing authorization already after Phase II. We have considered this opportunity in our estimates. We have assessed revenue already before we estimate that the actual marketing authorization is possible and we have weighed this revenue with the estimated probability of a conditional marketing authorization.

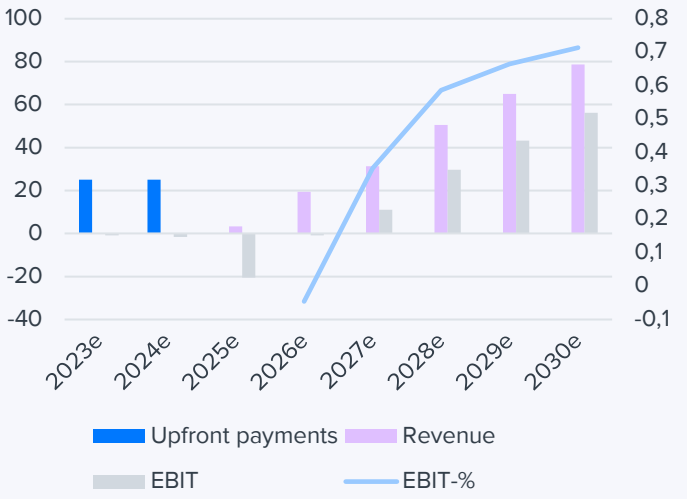
It typically takes about 6 years for a new drug to reach its full sales potential. We have used these six years as the basis of our estimates and revised our vision, e.g., based on the competitive situation. We assume that drug sales will continue normally until the end of product protection and then decline sharply. Bexmarilimab's product protection is valid until 2037.

Revenue and EBIT will start growing in the second half of the decade

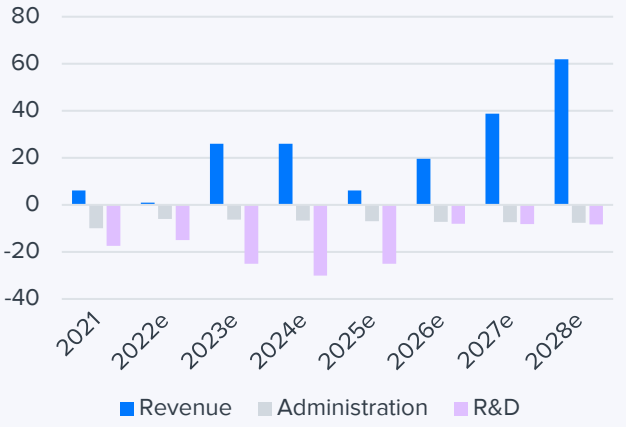
For the whole company, we estimate that license income from skin melanoma and bile duct cancer (MATINS indications) will start fully in 2026. For BEXCOMBO indications, we anticipate sales to start in 2027. For non-small cell lung cancers (BEXLUNG) and acute myeloid leukemia, sales would begin in 2028 and Haematokine in 2029. In our estimates, the Group's revenue reaches EUR 51 million in 2028, with peak revenue of EUR 113 million in 2037.

As far as EBIT is concerned, we expect the company to be heavily in red in 2022-2026. The company is likely to finance this period through licensing agreements, share issues and debt. We expect EUR 25 million in funding based on licensing agreements in 2023 and 2024, which will fund the research program.

Revenue (MEUR) and EBIT



Expenses (MEUR)



Estimates 3/5

License income starting in full in 2026 aggressively scales the result in our estimates. EBIT will turn positive in 2027 as income grows strongly, while costs remain at a moderate growth path. We expect 2028 EBIT to be EUR 30 million (59%). We do not expect administrative costs to grow with sales, as we expect an international partner to manage drug sales, marketing and distribution. In addition to EBIT, license income largely flows to the net result line, as the company has large amounts of losses exploitable in taxation. We will explain the estimates for the various studies in more detail on the next pages.

Costs will still accumulate in a frontloaded manner

Faron's cost structure can be divided into administrative costs and R&D costs. We estimate that normalized administrative costs are about EUR 6 million per year and will grow moderately slightly faster than inflation.

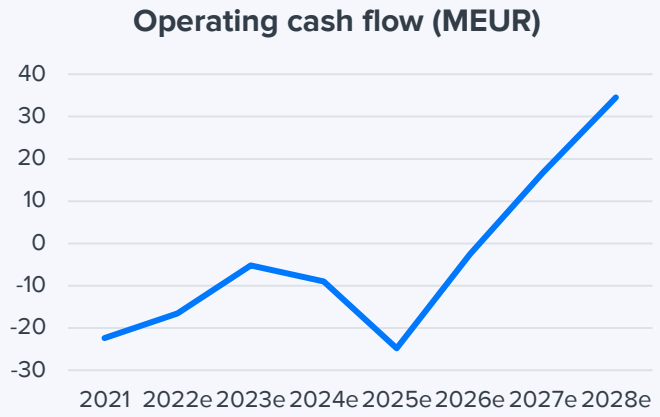
R&D costs vary heavily and have averaged EUR 14.4 million in 2016-2021. We expect R&D costs to increase in coming years as the research program expands as planned. So far, the company has announced its R&D plans until the end of 2025. We estimate that the costs for completing these studies to be EUR 66 million. The uncertainty of the research being carried out has been considered in R&D costs by weighting the costs with the probability of the research progressing in the same way as in the revenue assessment.

Cash position must be strengthened soon

The company has reported that its current cash reserves are sufficient until Q1'23. As we mentioned in connection with the MATINS study, we assume that R&D costs will in 2023-2024 will be covered by advance payments of EUR 25 million annually from a licensing agreement. Other studies are at an earlier stage, so we estimate that the company will finance them with share issues and debt financing, which are described in more detail in the Financial position section.

We have not assessed share issues in our estimates. The investor should at least be prepared for the possibility of further share issues in 2021-2026 if financing cannot be obtained through licensing agreements. We find a single issue and covering the rest of the financing needs through licensing agreements and debt as the most likely option. Based on the adequacy of cash reserves, we expect a possible share issue in H2'22-H1'23 and a licensing agreement related to the new MATINS study starting in winter H1'23.

Operating cash flow is negative in our estimates for many years, so we do not expect the company to return capital to owners for many years.



Estimates 4/5

MATINS study offers first opportunity for the market

We assess BEX's sales by research and within studies divided into indications (different cancer types). The company is closest to obtaining marketing authorization in the framework of the MATINS study, whose final clinical Phase II/III is planned to start in H1'23. We estimate that the main indications of the MATINS study are skin melanoma and bile duct cancer (cholangiocarcinoma). We assume that BEX is suitable as a monotherapy for third line treatment (i.e. after two failed treatment options) for patients for whom a PD-1 inhibitor has not worked. This patient population is relatively small, so sales estimates are also low compared to indications where BEX can be combined with a PD-1 inhibitor for earlier-stage patients (BEXCOMBO and BEXLUNG).

Based on the MATINS study, we estimate that the company could obtain a conditional marketing authorization already after the current ongoing Phase I/II. However, we do not believe the likelihood of this scenario to be high and we expect marketing authorization to take place in 2026, i.e. after Phase II/III research.

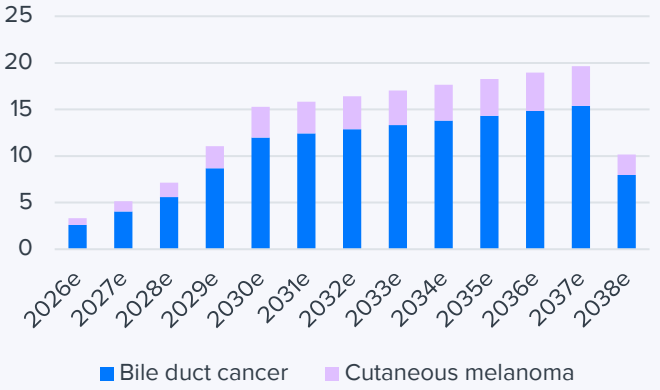
Our estimates for the MATINS study also include the assumption of a development and commercialization agreement with a global pharmaceutical company. We expect the advance payment from the agreement to be EUR 25 million annually in 2023-2024. Such an assumption is exceptional, as it is very difficult to assess the timing and value of a potential agreement. Nevertheless, we include the contractual payment in our estimates, as licensing agreements are an integral part of Faron's business model and we believe it is very difficult for the company to carry out costly Phase II/III studies without a licensing agreement. For the other studies, we do not assume agreements to be concluded, as their progress to the next stage of research is still uncertain.

We believe the company's biggest potential lies in the BEXCOMBO and BEXLUNG projects

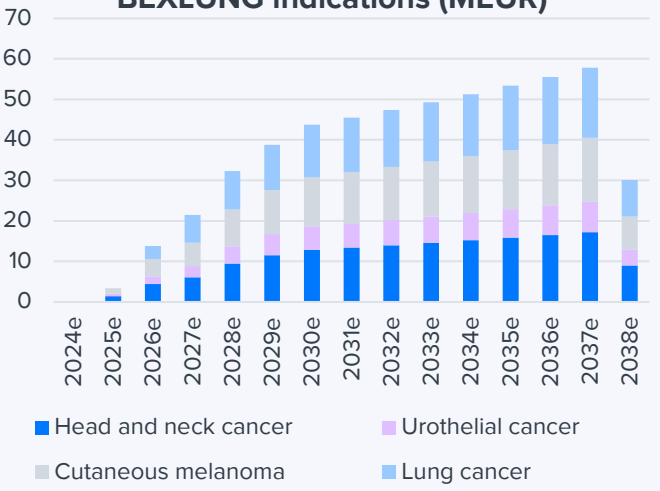
We estimate that BEX as a combination treatment has significantly greater sales potential compared to monotherapy. This is based on the possible use of BEX as first and second line treatment with a PD-1 inhibitor. The number of patients that can be treated with BEX is therefore manifold compared to monotherapy. On the other hand, the low likelihood of market entry depresses our current sales estimates.

In the BEXCOMBO study, we believe the most potential indication is head and neck cancers and skin melanoma, based on which we have made our estimates. BEXCOMBO also investigates possible bladder cancer and renal cancer. We may include these additional indications in our estimates once the research and its details are confirmed. BEXCOMBO is a Phase II study, which is planned to start in early 2023.

Revenue from MATINS indications (MEUR)



Revenue from BEXCOMBO- and BEXLUNG indications (MEUR)



Estimates 5/5

The study should be completed in H1'25, when we expect the company could apply for conditional marketing authorization and we include some revenue starting from 2025. However, in our basic scenario, the marketing authorization will be obtained after the final Phase III study, which we estimate will be completed at the earliest in 2027.

BEXLUNG is a study focusing on non-small-cell lung cancer (NSCLS). The potential patient population is large, which makes BEXLUNG an important study for Faron. BEXLUNG is currently in Phase I dose studies and we expect the research project to progress in line with BEXCOMBO.

BEXMAB expands indications from solid tumors to blood cancers

BEXMAB has recently started a Phase I/II blood cancer study using BEX in combination with standard treatment (venetoclax and/or azacitidine). The study started in Q2'22 and should be completed in mid-2024. Our assessment is based on treatment of acute myeloid leukemia, which we estimate to be 7,000 patients. We see myelodysplastic syndrome as the second indication. We assume that the company could receive a conditional marketing authorization after the ongoing study. We expect an actual marketing authorization for blood cancers in 2027.

Haematokine's potential is still far away and uncertainty is high

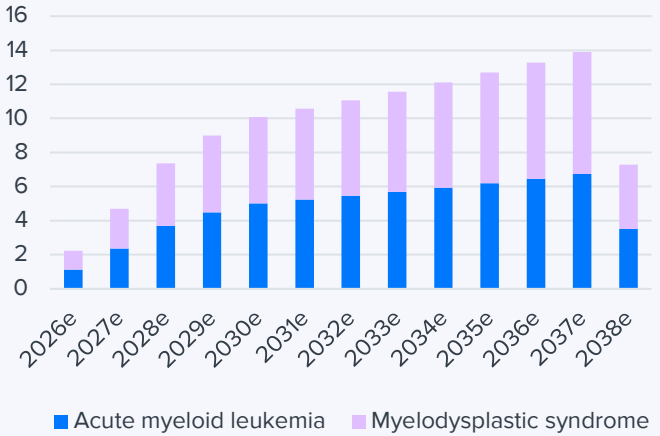
Faron acquired the rights to Haematokine in 2020 and plans to start a clinical Phase I study in late 2022. There is already information on the tolerance and safety of Haematokine based on previous studies. In addition, history has shown that drugs developed for blood diseases, or hematology, have a relatively high probability on average to enter the market.

We have, therefore, considered Haematokine' market entry to be relatively high considering its early development stage. We assess sales based on the most potential indication, i.e. neutropenia. The potential patient population of the disease is quite high. We estimate that marketing authorization could be obtained in 2029. We consider a conditional marketing authorization possible also for Haematokine.

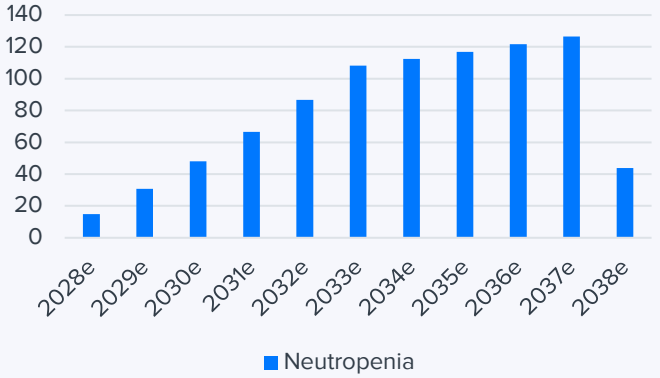
Traumakine not yet included in estimates

We do not include Traumakine in our estimates at this stage. The company recently suspended the Phase III HIBISCUS study and, according to our information, the company is currently reviewing Traumakine's development program. As the exact indication is currently not known, we do not believe there is sufficient basis for making estimates. We update our estimates in this respect when the future of Traumakine becomes clear.

Revenue from BEXMAB indications (MEUR)



Revenue from Haematokine indications (MEUR)



Income statement

Income statement	H1'20	H2'20	2020	H1'21	H2'21	2021	H1'22e	H2'22e	2022e	H1'23e	H2'23e	2023e	2024e	2025e
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**	**0.0**	**3.4**
EBITDA	**-7.0**	**-9.4**	**-16.4**	**-10.3**	**-10.5**	**-20.8**	**-12.9**	**-8.9**	**-21.8**	**-0.3**	**-0.3**	**-0.4**	**-1.3**	**-20.2**
Depreciation	-0.1	-0.1	-0.3	-0.2	-0.2	-0.3	-0.1	-0.1	-0.2	-0.1	-0.1	-0.4	-0.3	-0.4
EBIT (excl. NRI)	**-7.1**	**-9.5**	**-16.7**	**-10.4**	**-10.7**	**-21.1**	**-13.0**	**-9.0**	**-22.0**	**-0.4**	**-0.4**	**-0.8**	**-1.6**	**-20.5**
EBIT	**-7.1**	**-9.5**	**-16.7**	**-10.4**	**-10.7**	**-21.1**	**-13.0**	**-9.0**	**-22.0**	**-0.4**	**-0.4**	**-0.8**	**-1.6**	**-20.5**
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	-0.2	-0.1	-0.3	-0.1	0.0	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2	0.0	0.0
PTP	**-7.3**	**-9.6**	**-16.9**	**-10.6**	**-10.6**	**-21.2**	**-13.1**	**-9.1**	**-22.2**	**-0.5**	**-0.5**	**-1.0**	**-1.6**	**-20.5**
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	**-7.3**	**-9.6**	**-16.9**	**-10.6**	**-10.6**	**-21.2**	**-13.1**	**-9.1**	**-22.2**	**-0.5**	**-0.5**	**-1.0**	**-1.6**	**-20.5**
EPS (adj.)	**-0.16**	**-0.20**	**-0.36**	**-0.20**	**-0.20**	**-0.40**	**-0.24**	**-0.16**	**-0.40**	**-0.01**	**-0.01**	**-0.02**	**-0.03**	**-0.37**
EPS (rep.)	**-0.16**	**-0.20**	**-0.36**	**-0.20**	**-0.20**	**-0.40**	**-0.24**	**-0.16**	**-0.40**	**-0.01**	**-0.01**	**-0.02**	**-0.03**	**-0.37**

Key figures	H1'20	H2'20	2020	H1'21	H2'21	2021	H1'22e	H2'22e	2022e	H1'23e	H2'23e	2023e	2024e	2025e
Revenue growth-%			0.0 %			0.0 %			0.0 %			0.0 %	0.0 %	84401.9 %
Adjusted EBIT growth-%	12.6 %	40.7 %	27.1 %	45.9 %	12.4 %	26.7 %	24.7 %	-15.7 %	4.2 %	-97.0 %	-95.7 %	-96.5 %	110.2 %	1152.1 %
Net earnings-%			-423650%			-530225%			-555000%			-24500%	-40990%	-607.4 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	**0.9**	**1.1**	**1.4**	**1.5**	**1.8**
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.6	0.9	0.9	0.7	0.6
Tangible assets	0.4	0.2	0.5	0.8	1.2
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	**7.4**	**12.1**	**0.0**	**0.0**	**0.0**
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	3.3	5.2	0.0	0.0	0.0
Cash and equivalents	4.1	6.9	0.0	0.0	0.0
Balance sheet total	**8.4**	**13.2**	**1.4**	**1.5**	**1.8**

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	**-1.9**	**2.9**	**-19.3**	**-20.3**	**-21.9**
Share capital	2.7	2.7	2.7	2.7	2.7
Retained earnings	-96.6	-116.3	-138.5	-139.4	-141.1
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	92.0	117	117	117	117
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**3.7**	**3.1**	**0.5**	**0.5**	**0.5**
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	2.7	2.9	0.0	0.0	0.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	1.0	0.2	0.5	0.5	0.5
Current liabilities	**6.4**	**7.2**	**20.2**	**21.3**	**23.2**
Short term debt	0.0	0.4	20.2	21.3	23.2
Payables	6.4	6.7	0.0	0.0	0.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	**8.3**	**13.2**	**1.4**	**1.5**	**1.8**

Valuation and recommendation 1/5

Our valuation describes the probability-weighted average of the scenarios

Two main paths can be distinguished in Faron's estimates and valuation: 1) drug development is successful, drugs gain access to the market and offer investors a potential manifold return, or 2) development fails and the investor loses a significant share of their investment. Our estimates and the resulting valuation represent a probability-weighted average of these scenarios. The scenario we expect is not likely to materialize as is, but the expected return we describe reflects the probability between the two extreme scenarios.

We consider failure the most likely development based on historical probabilities of drug development being successful (see Estimates section). The second most likely scenario is market access for some indications. The best and least likely path is market access for all drugs in several indications.

Short- and medium-term value creation is based on progress in drug development

In the coming years, Faron has no revenue related to drug sales, so valuation methods based on revenue or profitability are not applicable. Thus, the company's value creation is not based on actual cash flows in the short or medium term, but on changes in the likelihood of their realization as drug development progresses. If research results are favorable, the company may proceed to the next clinical phase. This means increasing the likelihood of market entry, which also increases the likelihood of future cash flows realizing and reduces the risk associated with the investment. In this case, the value of the company is expected to increase. If drug development fails, the situation is, of course, the opposite and the company value decreases.

Signing of a potential licensing agreement, which would allow Faron to generate substantial income in the form of upfront payments could change the situation in the short term. Ending up as an acquisition target may also lead to a rapid realization of the value.

We approach these short- and medium-term value creation themes through a peer group analysis, where we compare Faron's current value to Nordic peers. We also examine implemented licensing agreements and acquisitions as a framework for Faron's valuation. However, the value and timing of licensing agreements and acquisitions are extremely difficult to predict and therefore their usefulness in valuation is limited.

Long-term valuation is based on future cash flows

In the long term, we determine Faron's valuation with a DCF model. In the realization of cash flows, it is important to consider both the binary R&D risk and the conventional risk associated with revenue realization. We have, therefore, considered the R&D risk in our estimates, so it does not need to be separately considered in the DCF model (see next page).

Development of share value in different scenarios

	Negative[1]	Estimate[2]	Positive[3]
Success of drug development	Development fails	According to Inderes' estimates	Extensive market access
Likelihood	Significant	Likelihood by study	Unlikely
EBIT 2030e	Neg.	~56 MEUR	~240 MEUR
Share value in EUR (DCF)	~0	~3	~15

1) In the scenario, shortcoming appear in the safety or efficacy of BEX which lead to the candidate being abandoned
2) Commercialization is successful with the probabilities and conditions described in this report
3) Commercialization is successful in all of the indications described in this report. Faron can still pursue new indications through further research.

Source: Inderes' estimate

Valuation and recommendation 2/5

Risk-adjusted DCF value is slightly higher than the current share price

The R&D risk adjusted DCF gives the share a value of EUR 2.8, which is 15% above the market price of the share. Drugs have limited product protection, after which sales and profitability typically decline sharply. Therefore, our DCF model is exceptionally limited in time to 2038, when BEX's patents have expired and no cash flows that are significant to the current value are generated in our estimates. Thus, we do not make assumptions about terminal growth and profitability, as is typical for the DCF model.

We consider the risk adjusted DCF calculation the best tool for Faron's valuation, as it enables assessing the probabilities of the success and separate estimation of different studies. We use risk-adjusted estimates in the DCF calculation, i.e. cash flows reflect the risk of research projects failing. In this case, when calculating the current value of cash flows, the cost of capital (WACC) prices the risk of the drug's sales price materializing, of reaching the market share and of royalties materializing.

We have used 10.6% as the WACC and assume gearing to be 0%. The discount rate is raised by uncertainty of the timing of revenue, the drug's sales price, the achievable revenue, and the terms of possible licensing agreements, including the royalty percentage. On the other hand, the industry's defensive nature and the strong cash flows resulting from market entry limit the risk level. The cost of capital is well in line with the average 10.3% WACC used in the industry. The cost of capital we use reflects our view of the risk level after considering the R&D risk. If the R&D risk had not been considered in the estimates, we believe the acceptable WACC should be over 20% based on industry practice.

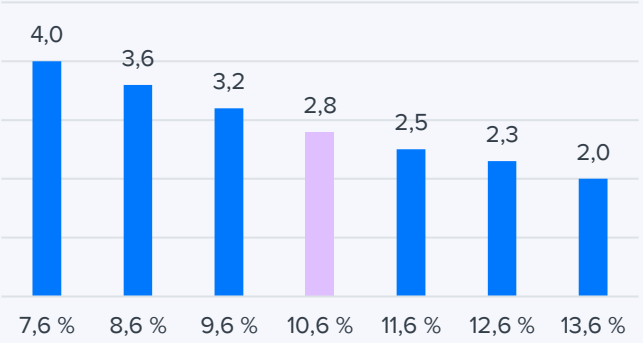
Investors should note that there are considerable uncertainties about the realization of estimated cash flows. The DFC model is also very sensitive to the assumptions used, especially when cash flows are far in the future. In the case of Faron, the estimated sales-based cash flows start in 2025 and reach their peak after the mid-2030s. We therefore encourage investors to compare the assumptions used in the model with their own estimates and required return.

A majority of Faron's current share value (135%) is based on cash flows in 2027-2031. Years 2032-2038 are less important for the current value of cash flows. As future years are loss-making, 2022-2026 cash flows will have a negative impact on the current share value (-66%).

Faron' valuation is neutral compared to Nordic drug development peers

Peer group analysis provides a relative reference framework for the valuation alongside the DCF model. As peer companies, we use listed clinical stage drug development companies in the Nordic countries.

Share price's sensitivity to used WACC in the DCF model



Valuation and recommendation 3/5

We have excluded companies that already have revenue based on drug sales. However, in the absence of revenue, companies cannot be compared based on traditional multiples. We assess the companies' market cap relative to the clinical research stage of their leading drugs. Faron is assumed to be a Phase II company as BEX is in clinical phase I/II. The same assumption has also been used for other peer companies.

The median market cap of Nordic peers is EUR 117 million, compared with which we believe Faron' is neutrally valued with a market cap of EUR 135 million. The median for Phase II companies is EUR 38 million and compared to these, Faron's valuation is significantly higher. The median valuation of Phase III companies is EUR 342 million. We point out that the peer group consists of very different types of companies with different target markets and number of drug candidates. We believe that these company-specific differences explain much of the difference in the market caps of Phase II and III companies.

We believe Faron deserves a higher valuation compared to its Phase II peers, based on BEX's large target market and preliminary data on its safety profile. Faron is also relatively close to transitioning to Phase II/III. We estimate that the MATINS study will progress to the next research phase in H1'23 with a 60-70% likelihood. This means that Faron would move to Phase III in the peer group analysis. This would also turn the current overvaluation to a clear undervaluation compared to the peer group.

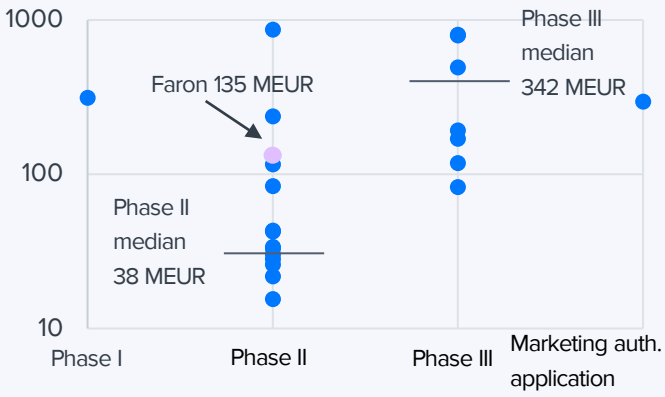
We feel that no strong conclusions on the share's fair value should be drawn based on the relative valuation compared to the peers, as they are very different types of companies. We assess Faron to be neutrally valued compared to the peers considering BEX's clinical phase, the size of its target market and the safety profile of the candidate.

Values of implemented licensing agreements provide a view of the valuation in the positive scenario

Comparison with existing licensing agreements gives an indication of the potential value of Faron if the company entered into an agreement with a larger partner. We point out that the agreements that have been concluded are aimed at drug candidates in which the industrial buyer has seen special potential. This is therefore a selected group of the most potential candidates. In our opinion, no direct conclusions can be drawn on Faron's fair value of based on the value of the contracts.

We examine Faron's value relative to historical drug candidate agreements of 2005-2020. Contract values include an advance payment and full milestone payments. The average price paid for Phase I candidate agreements (2020 inflation adjusted) is USD 354 million. The average price for Phase II companies has been USD 683 million.

Peers'[1] market cap (MEUR) vs clinical phase



1) Due to legibility the graph does not show one company worth under EUR 10 million and one company worth some EUR 3,500 million
Source: Thomson Reuters/ Inderes

Valuation and recommendation 4/5

These average deal prices are influenced by a number of variables: The agreements for biological drugs (like BEX) were 37% more valuable compared to small molecule agreements. Similarly, cancer drugs (6%) and multi-indication drugs (11%) earned a premium. On the other hand, agreements with US companies were clearly (63%) more valuable than those with European companies.

Compared to realized contracts, Faron could enter into a contract worth several hundred million euros with BEX. According to the study referred to above, the clinical phase is the most important driver for the value of an acquisition (44% of the value is explained by the clinical phase). BEX's value is also boosted by it being a biological, multi-indication cancer drug. On the other hand, we believe that Faron being domiciled in Europe somewhat lowers its value. We emphasize that singing this type of agreement requires strong interest from a global pharmaceutical giant and its likelihood, value and timing is very hard to predict. Therefore, the role of historical agreements is marginal in our valuation model.

licensing agreements in the immuno-oncology area

In the immuno-oncology area, to which CPIs belong, strategic licensing agreements have been signed quite often in recent years. The contracts for Phase II candidates in 2017-2022 are shown in the adjacent graph. The content of the agreements varies, but it typically consists of an upfront payment, milestone payments and license fees based on sales. The median of Phase II licensing agreements was USD 1.38 billion in 2017-2022. Many of the agreements also target immune checkpoint inhibitors.

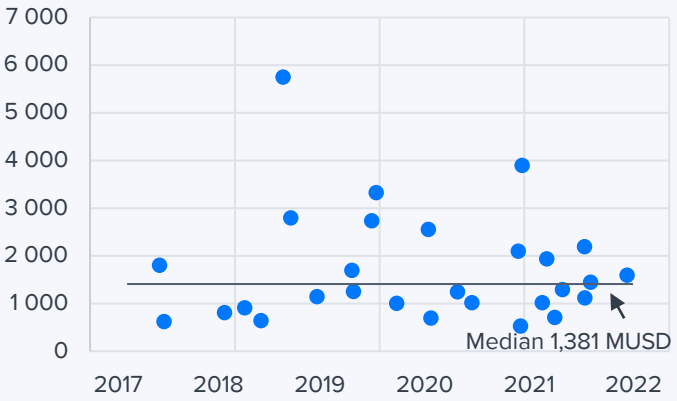
We would particularry like to highlight the commercialization agreement on Biond Biologics' anti-ILT2 drug candidate. The candidate is interesting as like BEX it affects macrophages and offers potential as a combination treatment with PD-1 inhibitors. At the time the agreement was signed, the candidate was in a preclinical phase and the pharmaceutical company Sanofi offered a USD 125 million advance payment and over USD 1 billion potential for milestone payments.

Acquisitions in the immuno-oncology area

Acquisition activity in the immuno-oncology area has been high in recent years and they have been highly valuable (median 3,000 MUSD). As for licensing agreements, we also believe that M&A transactions concern the companies and drug candidates with the highest potential. Therefore, we do not believe that any direct conclusions should be drawn from these acquisitions regarding the value of Faron.

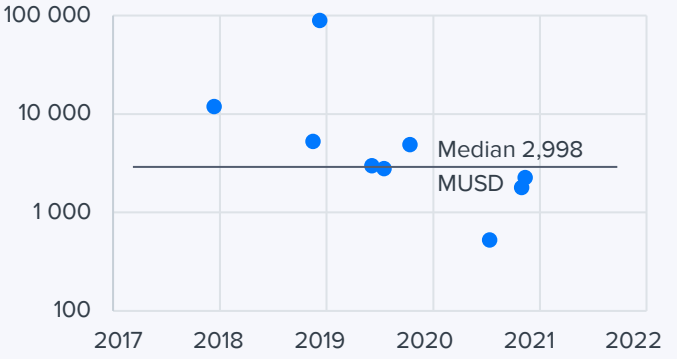
We point out that there are a large number of immuno-oncology drugs in the development pipeline, so acquisitions are relatively rare. We, therefore, consider an acquisition unlikely but a potential route for Faron's value increase and realization. It offers a positive option to the investor but does not directly affect our recommendation.

Value of immuno-oncology Phase II deals (MUSD)



Source: Global Data

Value of immuno-oncology area acquisitions (MUSD)



Valuation and recommendation 5/5

Valuation summary and recommendation

Our view of the fair value of Faron's share is EUR 2.8, which is 15% above the current share price. The assessment is based on a risk adjusted DCF model which gives the same value of EUR 2.8 per share. Our required return is exceeded by a sufficient margin, so we initiate our coverage with an Accumulate recommendation. We remind you that the risk-adjusted DCF model is based on uncertain probability-weighted estimates. Thus, our target price also represents a probability-weighted view between the two extremes.

In addition, the peer group analysis suggests that the share is roughly valued at the same level as the peers. The peer group analysis supports our view of the fair value. The likelihood, value and timing of licensing agreements and acquisitions are very difficult to predict. That is why we do not consider them in our target price. However, in our opinion, they give the investor a positive return option.

In our view, the acceptable valuation picture is depressed by the increase in risk premiums that began last year, which has also affected drug development companies. We believe, the impact on the acceptable valuation will mainly come from increased interest rates, as the drug sales industry is very defensive and we expect that the effects of a potential recession would be limited. Availability of risk financing becoming more limited and the increase in the cost of financing also weigh on the valuation. Financial challenges can also lead to a significant dilution in the share capital if the company must carry out a large share issue.

In our view, Faron is one of the riskiest companies on First North or OMXH lists. Considering the binary risk profile, we feel that an investor interested in Faron should use extensive diversification both within and outside the drug development sector. Diversification to several drug development companies increases the likelihood that one of the companies will be able to enter the market. It is possible to spread binary risk without affecting the expected return. A person investing in Faron must be patient as commercialization is still far away and they must be prepared for new share issues.

Expected return may change drastically along the way

We expect potentially large changes in Faron's expected return as the equity story develops. Research progressing to the next phase or studies being terminated can quickly change the expected return drastically as the likelihood of market entry changes. Similar changes may occur with new research results being published and possible licensing agreements or acquisition news. In the next 12 months we expect news about licensing agreements, a share issue, BEX's research results and new development plans for the company's drug candidates that affect the expected return.

Recommendation

Short-term drivers (1-2 years)

1. Research results
2. Success in funding and expanding the research program
3. Signing of licensing agreements

Medium-term drivers (3-5 years)

1. Research results
2. Completing the research program and possible expansion to new indications
3. Signing of licensing agreements and commercialization

Long-term drivers (over 5 years)

1. Research results
2. Commercialization within the framework of a licensing agreement and possible expansion to new indications

Source: Inderes

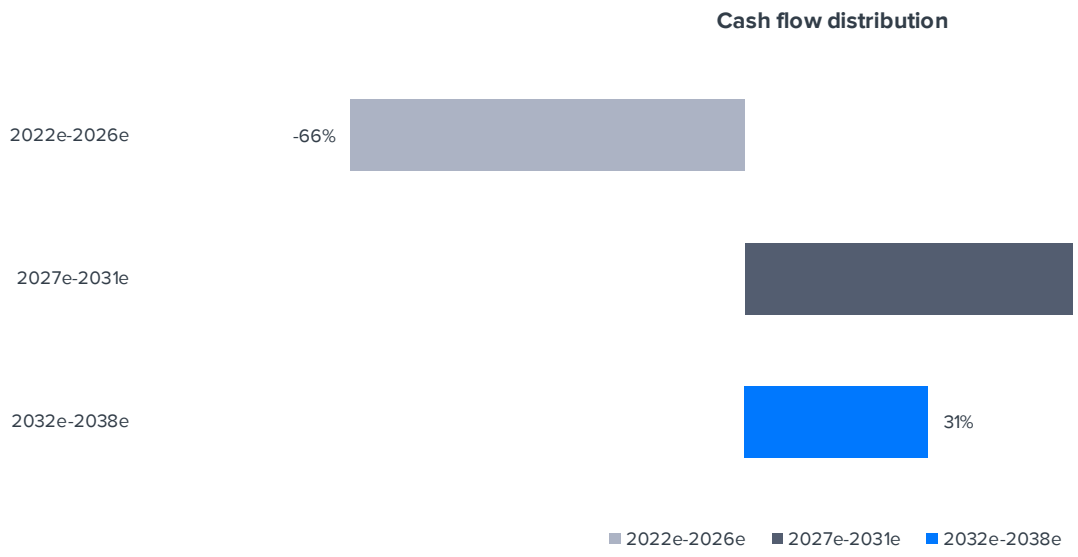
DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e
EBIT (operating profit)	**-21.1**	**-22.0**	**-0.8**	**-1.6**	**-20.5**	**-0.9**	**11.0**	**29.6**	**43.2**	**56.1**	**61.8**	**68.1**	**71.0**
+ Depreciation	0.3	0.2	0.4	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6
- Paid taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-12.4	-13.6	-14.2
- 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
+ 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
- Change in working capital	-1.5	-1.5	0.0	0.0	0.0	-1.0	-0.6	-1.0	-0.7	-0.7	-0.3	-0.3	-0.2
Operating cash flow	**-22.4**	**-23.3**	**-0.4**	**-1.3**	**-20.2**	**-1.5**	**10.9**	**29.1**	**42.9**	**55.9**	**49.7**	**54.7**	**57.2**
+ Change in other long-term liabilities	-0.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Gross CAPEX	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7	-0.7	-0.7
Free operating cash flow	**-23.6**	**-23.5**	**-0.9**	**-1.9**	**-20.7**	**-2.0**	**10.3**	**28.5**	**42.3**	**55.3**	**49.0**	**54.0**	**56.5**
+/- 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
FCFF	-23.6	-23.5	-0.9	-1.9	-20.7	-2.0	10.3	28.5	42.3	55.3	49.0	54.0	56.5
Discounted FCFF		**-22.6**	**-0.8**	**-1.5**	**-14.7**	**-1.3**	**6.0**	**15.0**	**20.1**	**23.7**	**19.0**	**18.9**	**17.9**
Sum of FCFF present value		150	172	173	175	189	191	185	170	150	126	107	88.0

Enterprise value DCF	**150**
- Interesting bearing debt	-3.3
+ Cash and cash equivalents	6.9
-Minorities	0.0
-Dividend/capital return	0.0
Equity value DCF	**153**
Equity value DCF per share	**2.8**

Wacc	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	0.0 %
Cost of debt	10.0 %
Equity Beta	1.10
Market risk premium	6.00%
Liquidity premium	2.00%
Risk free interest rate	2.0 %
Cost of equity	**10.6 %**
Weighted average cost of capital (WACC)	**10.6 %**

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**
Alligator Bioscience	43	26					9.5	3.6					3.9
Bavarian Nordic	3760	3853		14.8		16.1	10.9	3.9		15.7			4.2
Bergenbio	130	93		22.6		22.4	6.2	2.5		39.2			17.6
BioArctic	730	658		164.2		186.0	36.5	23.4		432.9			5.9
Bioinvent international	302	207					16.0	6.5					2.1
Calliditas Therapeutics	560	502		8.3		6.8	8.3	2.4		11.3			10.5
EGETIS Therapeutics	81	71					29.6	14.3					0.8
IRLAB Therapeutics	173	138					33.0	6.9					5.4
Isofol medical	22		0.7	1.0	0.7	1.0							1.2
Medivir	44	28					27.0	15.6					4.2
Nykode Therapeutics	1034	830		100.1		100.1	38.7	9.6		724.5			1.5
Oncopeptides	336	302					24.8	29.6					32.6
PCI Biotech Holding	20	11				3.3	12.8	0.7					
Vicore Pharma Holdings	223	194					72.8	8.0				1.6	5.1
Zealand Pharma	806	743					16.7	11.6					19.9
Faron Pharmaceuticals (Inderes)	**135**	**155**	**-7.0**	**-199.8**	**-7.1**	**-389.5**	**38686.8**	**38965.6**	**-6.1**	**-137.3**	**0.0**	**0.0**	**-7.0**
Average			**0.7**	**51.8**	**0.7**	**47.9**	**167.0**	**8.8**		**204.8**		**1.6**	**7.3**
Median			**0.7**	**18.7**	**0.7**	**16.1**	**20.7**	**6.7**		**27.4**		**1.6**	**4.2**
Diff-% to median			***-1091%***	***-1168%***	***-1100%***	***-2522%***	***186657%***	***580177%***		***-600%***		***-100%***	***-266%***

Source: Refinitiv / Inderes NB: The market cap Inderes uses does not consider own shares held by the company.

Summary

Income statement	2019	2020	2021	2022e	2023e
Revenue	0.0	0.0	0.0	**0.0**	**0.0**
EBITDA	-12.9	-16.4	-20.8	**-21.8**	**-0.4**
EBIT	-13.1	-16.7	-21.1	**-22.0**	**-0.8**
PTP	-13.3	-16.9	-21.2	**-22.2**	**-1.0**
Net Income	-13.3	-16.9	-21.2	**-22.2**	**-1.0**
Extraordinary items	0.0	0.0	0.0	**0.0**	**0.0**

Balance sheet	2019	2020	2021	2022e	2023e
Balance sheet total	10.2	8.4	13.2	**1.4**	**1.5**
Equity capital	1.6	-1.9	2.9	**-19.3**	**-20.3**
Goodwill	0.0	0.0	0.0	**0.0**	**0.0**
Net debt	-4.6	-1.4	-3.5	**20.2**	**21.3**

Cash flow	2019	2020	2021	2022e	2023e
EBITDA	-12.9	-16.4	-20.8	**-21.8**	**-0.4**
Change in working capital	1.0	-0.7	-1.5	**-1.5**	**0.0**
Operating cash flow	-11.8	-17.1	-22.4	**-23.3**	**-0.4**
CAPEX	-0.1	-0.2	-0.5	**-0.5**	**-0.5**
Free cash flow	-11.7	-16.6	-23.6	**-23.5**	**-0.9**

Valuation multiples	2019	2020	2021	2022e	2023e
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	88.7	neg.	58.8	**neg.**	**neg.**
Dividend-%	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**

Source: Inderes

Per share data	2019	2020	2021	2022e	2023e
EPS (reported)	-0.31	-0.36	-0.40	**-0.40**	**-0.02**
EPS (adj.)	-0.31	-0.36	-0.40	**-0.40**	**-0.02**
OCF / share	-0.27	-0.36	-0.42	**-0.42**	**-0.01**
FCF / share	-0.27	-0.35	-0.44	**-0.43**	**-0.02**
Book value / share	0.04	-0.04	0.06	**-0.35**	**-0.37**
Dividend / share	0.00	0.00	0.00	**0.00**	**0.00**

Growth and profitability	2019	2020	2021	2022e	2023e
Revenue growth-%	-79%	0%	0%	**0%**	**0%**
EBITDA growth-%	-35%	27%	27%	**5%**	**-98%**
EBIT (adj.) growth-%	-34%	27%	27%	**4%**	**-96%**
EPS (adj.) growth-%	-53%	18%	10%	**1%**	**-96%**
EBITDA-%	-321575%	-409275%	-520050%	**-545000%**	**-10005%**
EBIT (adj.)-%	-327525%	-416350%	-527700%	**-550000%**	**-19500%**
EBIT-%	-327525%	-416350%	-527700%	**-550000%**	**-19500%**
ROE-%	-1340.3 %	14063.1 %	-3920.3 %	**271.7 %**	**5.0 %**
ROI-%	-400.8 %	-676.3 %	-588.9 %	**-612.3 %**	**-80.1 %**
Equity ratio	15.8 %	-22.1 %	22.3 %	**-1370.8 %**	**-1314.2 %**
Gearing	-287.8 %	73.9 %	-119.5 %	**-104.7 %**	**-105.1 %**

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Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
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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 price	Share price
08-08-22	Accumulate	2.80 €	2.44 €

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