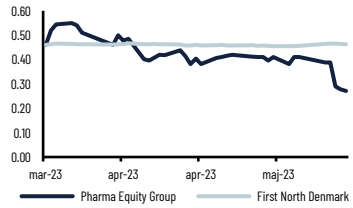
Pharma Equity Group

Market: Nasdaq Copenhagen	Ticker: PEG	Share price (DKK): 0,27	Market cap (DKKm): 278	Net cash (DKKm): 12 (Q1 23)	Enterprise value (DKKm): 266

Share information*



YTD:	-36.6%	1 year:	N/A
1 month:	-46.8%	3 years:	N/A

Note: * Closing prices of May 26, 2023, has been used

Financials

(DKKm)	2021	2022	2023E*
Revenue	0	0	n/a*
Revenue growth	*0%*	*0%*	*xx**
Research & Development	-5.1	-5.2	n/a*
EBIT	-12.6	-12	n/a*
Total Cash flow	11.2	-8.6	n/a*
Cash position	11.4	2.8	n/a*

Note: * Data from Pharma Equity Group's financial reports

Pipeline

Product Candidate	Phase I	Phase II	Phase III
RNX-011	Completed	Completed*	
RNX 21, RNX 22 and RNX 23	Completed	Ongoing	
RNX-041	Completed	Ongoing	
RNX-051	Completed	Ongoing	

Note: * Phase II/III multicenter study initiated with data expected in 2024

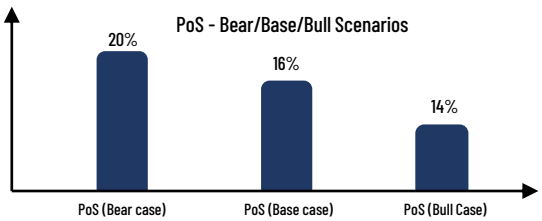
Company description

Pharma Equity Group (PEG) is a Danish biotech company based in Horsholm, north of Copenhagen, and listed on Nasdaq Copenhagen since March 2023. PEG has invested in Reponex Pharmaceutical, which has a pipeline of product candidates in Phase 2 within the following therapeutic areas: peritonitis, wound healing, inflammatory bowel disease, and colorectal cancer. Based on a repositioning and reformulation strategy, PEG plans to out-license their product candidate to partners to minimize operational development and financial risk.

Investment Case

The investment case is driven by PEG's ability to successfully implement and follow a twofold strategy: firstly, to create value by traditional medical development of the pipeline of projects for the individual indications in Reponex. Secondly, to create value via its unique repositioning and reformulation strategy, where already established medical formulas are being used to find new indications, new ways of delivery mechanism, or new combinations with other established products. The idea is to utilize already available data regarding efficacy, toxicity and safety, saving both time and money to bring products to market.

From a valuation perspective, a DCF-modelling approach is considered appropriate as PEG - like other biotech companies - still don't have revenue and income. In this case, a DCF-model using publicly available company information can assess the present value of future potential cash flows in different scenarios based on assumptions regarding market size, market share, profitability etc. (see page 2 and 3 for details). When doing this, the model shows, that the average implied likelihood, according to the market, for PEG to successfully receive approval and successfully commercialize its pipeline of products (through partnerships) is approximately 16 percent in a base case scenario, reflecting a current market cap of DKK 278 million relative to a company guidance-based model value of DKK 1.7 billion. This 'Probability of Success' (PoS) is only one-third of what is typically the average likelihood for Phase 2 products to make it through Phase 3 and be approved and launched (according to Biostatistics, see page 2). The PoS in a bear and bull case scenario is illustrated below:



Key investment reasons

Following a reformulation and repositioning strategy based on a broad and diversified pipeline, PEG provide a unique opportunity to invest in the typically high reward business model of biotechnology with a lower risk than the otherwise typically associated high risk.

PEG's pipeline of products has exposure to therapeutic areas where there are medical unmet needs, bringing new solutions to already established therapeutic areas, or areas that are perhaps being neglected or de-prioritized by big pharmaceutical companies.

The reformulation and repositioning business model of PEG will typically require fewer and smaller capital raises resulting in less dilution as the business model often relies on smaller publicly financed programs or trials at hospitals or scientific institutions with cash burn levels that are smaller than what the therapeutical areas would typically be associated with if trials were conducted by big pharma using Contract Research Organizations, CRO's.

The value potential from PEG successfully implementing its partner-based strategy is only partly reflected in the current market valuation. It is PEG's strategy after phase 2, based on data to enter strategic partnerships, that may close this valuation gap.

Key investment risks

Drug development is generally high risk, and although PEG's pipeline are in Phase 2, investing in PEG requires patience and high risk-appetite as PEG has still not engaged in partnership arrangements that validates its reformulation and repositioning strategy from both a financial (with lower cash burn) and medical development perspective.

Even if approved, some of PEG's pipeline products addresses therapeutic areas in large markets where there are already established treatment processes and competitors, which could materially affect the likelihood of commercial success.

If the development of its pipeline products or entering into partnership agreements is delayed, PEG will perhaps have to raise more capital than otherwise planned and could require investors to participate in future capital raises to avoid dilution. This can be challenged by negative shifts in risk-appetite as seen in 2022 and 2023.

On a short-term basis, the share price development may continue to be negatively affected by former Blue Vision investors seeking to reduce exposure following the possibility of doing this as Blue Vision has been 're-listed' as PEG.

Appendix – Discussion of assumptions in DCF-model

The model

The objective of this One-Pager is not to calculate a price target for PEG share. Instead, the objective is to use a simplified DCF (Discounted Cash Flow) model to give investment perspectives based on different scenarios. In particular, the model can use simulations to give an indication as to how much the current market cap of PEG is implicitly discounting in terms of possibility of successful a approval (PoS), and successful launch of its pipeline products through partnerships deal. The DCF model considers the future potential cash flow of PEG based on several assumptions, which will be described and discussed below.

As described, PEG currently have pipeline product candidates in Phase 2. From a modelling perspective, due to the inherently huge uncertainty, only estimates regarding pipeline products candidates that are in Phase 2 or about to move into Phase 3, would typically be included as these are statistically considered to have a relatively high and realistic probability of getting approved.

Market size and market growth

The addressable market sizes of the different pipeline projects have been estimated or indicated by PEG in publicly available documents like prospectus, presentations or conference calls, and these estimates are used in the model.

For Bacterial Peritonitis (RNX-011), a market size of USD 2 billion has been used. The combined market size of pipeline projects within wound care (RNX-021, RNX-022 and RNX-025) is assumed to grow to USD 25 billion globally in 2025. The market size for Inflammatory Bowel disease-related indications (RNX-041) is expected to grow to USD approximately USD 5 billion in 2025. Lastly, the market size for the treatment and prevention of colorectal cancer (RNX-051) is currently approximately USD 10 billion.

To be conservative, the value of the different markets is assumed to show negative growth of 2 percent annually due to increased competition and lower prices when the patents expire. This is also an assumption used from a modelling perspective to avoid an unrealistic compound effect of the value of the cash flows.

Market share and revenue

Depending on the indication, different levels of peak market shares are assumed. Also, the market share in different regions varies, depending on the level of patent protection, strength and strategy of the potential partners etc.

For Bacterial Peritonitis using RNX-011, an average market share of 5-10 percent is assumed when taking the different indications and regional patent protection levels into consideration. For the combined market size of pipeline projects within wound care using RNX-021, RNX-022 or RNX-025, an average market share of approximately 2-3 percent reflecting the highly competitive dynamic nature of a very big market.

The average market share for the Inflammatory Bowel disease-related indications using RNX-041 is assumed to be approximately 5-10 percent, and the market share for the treatment and prevention of colorectal cancer using RNX-051 is assumed to be approximately 10-15 percent.

Generally, a high market share is often difficult to obtain immediately after product launch, but for simplicity reasons and modelling purposes, the penetration curve is assumed to be linear from the expected launch year.

From a cash flow timing perspective, it is important to understand that the expected implementation of a partner strategy will bring forward cash flow to PEG before the partner will obtain the expected peak market share due to milestones paid upfront.

Discount rate

The model uses a discount rate of 15 percent, reflecting the generally high level of investment risk and uncertainty typically associated with forecasting future cash flows from biotech companies. The development of the different indications probably reflects different levels of uncertainty, but the model uses the widely accepted 15 percent within the industry.

Probability of successful launch (PoS)

Based on historical data from Biostatistics research containing 5764 pipeline projects across all indications in pharmaceutical and biotech companies, the average historical likelihood of a Phase 3 pipeline project passing through to launch from Phase 2 is approximately 55 percent.

EBIT-margin and royalty rates

According to Refinitiv Financial System five-year average EBIT-margins within major pharmaceutical and biotech companies are approximately 30 percent. Looking at biotech companies specifically, the five-year average is approximately 50 percent, reflecting a generally more focused business model that are often based on higher economies of scale and partnership or out-licensing deals, which is also the strategy for PEG.

Besides estimating an EBIT-margin of 50 percent, it is expected that PEG will be able to negotiate average royalty rate of 25 percent across its partnership deals. The high level reflects the inclusion of upfront milestone payments etc. There will be variations depending on the type of partnership and indication, but overall, a royalty rate of 25 percent is considered realistic and comparable to industry standards if the products are highly valuable and represent a novel medical therapeutic approach.

Capital increases

It is assumed that a combination of current cash position and upfront milestone payments from future partners will provide PEG with sufficient capital to finance the company until cash flow generation becomes positive.

Appendix – Results and Conclusion

Scenarios

Based on the previously mentioned assumptions regarding market size and growth, level of profitability, royalty rates, market share and discount rate, different scenarios can be simulated to assess how much the market is on average, implicitly discounting the successful likelihood of launch of the different pipeline projects in PEG. As illustrated, the model has simulated the implicit likelihood in 3 scenarios: a bear-, base- and bull-case scenario using the indicated level of peak market share levels as the main differentiator. Accordingly, the remaining criteria discussed are assumed to be the same in all scenarios.

Base case scenario

In the base case scenario, the model uses the indicated combined market size of the four pipeline product candidates as indicated by PEG. The model uses an EBIT margin of 50 percent and royalty rate of 25 percent as well as an average estimated peak market shares of 7,5, 2,5, 7,5 and 12,5 percent of the four pipeline candidates, respectively (using midpoint of assumed intervals). Based on this, the market currently implicitly assumes there is approximately 16 percent average probability of successful launch (PoS) for the four product candidates according to the model. This compares to a historical average level of success of approximately 55 percent for drug development projects in Phase 2 across all types of indications.

Bear case scenario

In the bear case scenario, the model uses an estimated peak market share of 5, 2, 5 and 10 percent for the four product candidates, respectively, all reflecting the lower part of the previously indicated interval in the base case scenario. The remaining assumptions are similar to those used in the base case scenario, i.e an EBIT margin of 50 percent and a royalty rate of 25 percent. Based on this, the market currently implicitly attributes an average 20 percent probability of successful launch (PoS) of the four candidates in the bear case scenario according to the model.

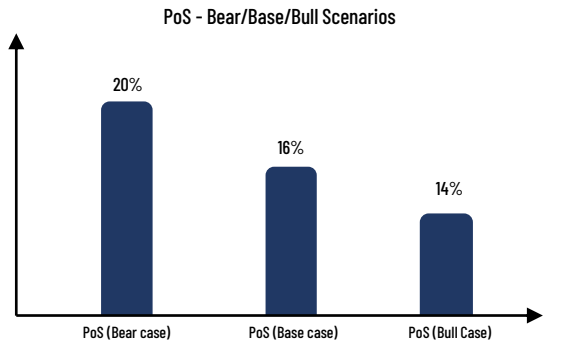
Bull case scenario

In the bull case scenario, the model uses an estimated peak market share of 10, 3, 10 and 15 percent for the four product candidates respectively, all reflecting the higher part of the previously indicated interval in the base case scenario. The remaining assumptions are similar to those used in the base case scenario, i.e an EBIT margin of 50 percent and a royalty rate of 25 percent. Based on this, the market currently implicitly attributes an average 14 percent probability of successful launch (PoS) of the four candidates in the bull case scenario according to the model.

Conclusion

The three scenario simulations all suggest a low level of market confidence for PEG to successfully launch their four pipeline product candidates (through partnership). This means that the value potential of the product candidates is only partly reflected in the share price but can be substantially altered if the product candidates are approved and successfully launched (by partners).

A low PoS is not uncommon for biotech companies still in their developing Phase, and can also reflect that the market assesses there is a likelihood that PEG will need to raise additional capital.



Note: Probability of success (PoS) model based on general market assumptions and HC Andersen Capital assumptions.