Deal analysis: a "New Day" dawning

In this report, we evaluate the proposed sale of substantially all the company's assets to New Day. We expect approval of the transaction at the 11 September EGM as it represents the only option that would allow shareholders to unlock the value of the developmental colorectal cancer diagnostic Epi Next-Gen in the wake of the company's unsuccessful efforts to secure the funding necessary to conduct clinical trials. Whilst our assessment of the timelines and commercial prospects for this principal value driver remain unchanged, we update our valuation to reflect the extent to which Epigenomics shareholders would partake in the test's economic prospects. We reiterate our Buy rating and set a price target of EUR 3.15 per share.

Deal terms and implications for the viability of Epigenomics

Epigenomics proposes to transfer substantially all its assets to the private US company New Day for a purchase price of up to USD 12.05m – comprised of USD 1.8m upfront, milestones of up to USD 8m and a ca. 3% stake in New Day – plus low to mid-single digit % royalties on commercial sales of the colorectal cancer diagnostic candidate Epi Next-Gen. In conjunction with the ongoing restructuring program, the deal was designed to safeguard Epigenomics' viability and forge a path forward for Epi Next-Gen despite Epigenomics' inability to raise financing. We estimate the net proceeds from the upfront payments to be sufficient to fund Epigenomics until the potential receipt of the first major milestones from '27e.

Operational and commercial implications

New Day is a test developer/CRO/reference lab that looks well-positioned to execute on Epigenomics' original business plan for developing Epi Next-Gen, pending financing. New Day is seeking to raise at least USD 10m to conduct preclinical work, with a larger raise of at least USD 40m to fund clinical development to follow in '24e. We foresee a launch of Epi Next-Gen from '27e and unadjusted peak sales of USD 0.5bn by the mid-2030s to be recorded by New Day. Our mid-term forecasts reflect Epigenomics' transition to a holding company.

Investment thesis

Epigenomics investors partake in the potential long-term success of Epi Next-Gen through 1) major milestones from 2027e, 2) royalties on commercial sales, 3) the ca. 3% stake in New Day. We set an NPV-based price target of EUR 3.15 per share (previously: EUR 2.75 on a standalone basis). Upside notably arises in case of greater than expected commercial uptake of Epi NextGen. Clinical, regulatory or commercial failure represents downside risk, which would notably be heightened if New Day were unable to raise sufficient capital to conduct development work.

EURm	2021	2022	2023e	2024e	2025e
Revenues	6	0	0	-	-
EBITDA	(2)	(11)	(6)	(1)	(0)
EBIT	(2)	(12)	(8)	(1)	(1)
EPS	(0,87)	(2,96)	(1,97)	(0,18)	(0,11)
EPS adj	(0,87)	(2,96)	(1,97)	(0,18)	(0,11)
DPS	-	-	-	-	-
EV/EBITDA	-	-	-	-	-
EV/EBIT	-	-	-	-	-
P/E adj	-	-	-	-	-
P/B	0,32	0,68	-	-	-
ROE (%)	-	-	-	-	-
Div yield (%)	-	-	-	-	-
Net debt	(23)	(10)	(3)	(2)	(1)

Source: Pareto Securities

Target price (EUR)	**3,15**	▲ **BUY**
Share price (EUR)	0,66	– HOLD
		▼ SELL

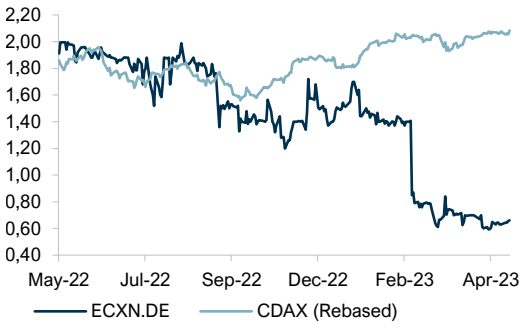
Forecast changes

%	2023e	2024e	2025e
Revenues	NM	NM	NM
EBITDA	84	98	NM
EBIT adj	79	98	NM
EPS reported	80	98	NM
EPS adj	80	98	NM

Source: Pareto Securities

Ticker	ECXN.DE, ECX GR
Sector	Healthcare
Shares fully diluted (m)	4,1
Market cap (EURm)	3
Net debt (EURm)	-3
Minority interests (EURm)	0
Enterprise value 23e (EURm)	0
Free float (%)	69

Performance



Source: FactSet

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Overview of the proposed transaction

Epigenomics' inability to raise sufficient capital to continue on a standalone basis prompted the quest for a strategic partner

Following Epigenomics' vain efforts to raise sufficient capital to fund the in-house development of its next generation colorectal cancer diagnostic candidate, management embarked on a quest to identify a potential buyer or strategic partner that would develop the product candidate and subsequently commercialize it, pending regulatory approval. On 24 July, Epigenomics signed an agreement with the privately held US firm New Day Diagnostics LLC ("New Day") – the only company that had made a credible offer – on the divestment of substantially all its assets, including all patents and biobanks.

The proposed transaction with New Day offers upfront & milestone payments plus earn-outs

In this section, we delineate the transaction, which has been structured as a classical back-loaded healthcare deal, where investors are eligible to receive modest upfront payments, success-driven milestone payments and royalties on potential future revenues. The deal was designed to provide sufficient funding to ensure the viability of Epigenomics until the receipt of the first milestone payments, which we anticipate from 2027. Consummation of the transaction, which we regard as a prerequisite to any potential returns to Epigenomics shareholders, is expected from mid-October, pending shareholder approval at the 11 September EGM.

Expected near-term newsflow

Closing is expected from mid-October

As summarized below, we anticipate extensive newsflow over the coming year, much of which is directly or indirectly deal-related. We expect Epigenomics shareholders to vote in favor of the deal with the required 75% majority at the upcoming EGM, to safeguard the company's viability and to allow the requisite measures to unlock the value of the next generation colorectal cancer diagnostic to take place. Thereafter, we would expect the deal to close following the expiration of a one-month waiting period, subject to customary closing conditions. We note that the receipt by Epigenomics of a ca. 3% stake in New Day is among the closing conditions; we understand from management that New Day is likely to secure sufficient financing for the pre-clinical stage of the developmental colorectal cancer test and obtain a post-money valuation prior to closing.

Subsequently, New Day is expected to develop Epi Next-Gen

It is management's understanding that post closing, New Day would seek to augment the sensitivity of Epi Next-Gen through the integration of its own biomarker(s) and would subsequently conduct additional preclinical work over a ca. two-month period, implying that these preclinical data could become available as early as January 2024. Strong data would subsequently pave the way for a further capital raise by New Day to fund subsequent clinical development. Following the commencement or resumption of clinical work, we would anticipate a relative newsflow void until clinical data become available from 2026e. Separately, Epigenomics intends to perform a 5:1 reverse split later this year to pave the way for potential capital raises should the need and/or opportunity arises.

Upcoming near-term newsflow

Date	Description	Relevance
11 September, 2023	EGM	Shareholders will be asked to vote on the proposed transfer of substantially all assets to New Day; consummation of the transaction is predicated on a 75% majority vote in favour of the deal. Additionally, shareholders will be asked to 1) vote on a change in by-laws to transform Epigenomics into a holding company following the termination of in-house operations pertaining to the development and commercialization of diagnostic tests, and 2) to greenlight a 5:1 reverse split.
From mid-October, 2023e	Consummation of the transaction with New Day	This is subject to the payment of USD 0.5m to Epigenomics in cash, payment of USD 1m into an escrow account as well as the receipt of Epigenomics' stake in New Day of the higher of 3% or a $2.25m minimum post-money valuation, suggesting to us that Epigenomics will likely await the outcome of New Day's upcoming financing round before closing.
November/ December 2023e	Reverse split 5:1	Subject to shareholder approval. This measure would raise the share price above EUR 1 and thus pave the way for potential future capital raises.
Early 2024e	Preclinical data for Epi Next-Gen colorectal cancer diagnostic test	Following closing, New Day is seeking to optimize Epigenomics' test candidate by combining Epigenomics' methylation markers and other biomarkers with biomarkers from its own ColoPlex test. New Day hopes to better the 84% sensitivity observed in Epigenomics' own trials and plans to verify this in a preclinical study that is expected to take approximately two months

Source: Pareto Securities Research, company data

Summary of the proposed deal terms

Epigenomics is to divest substantially all its assets

Epigenomics is seeking to divest substantially all its assets, notably all diagnostic test candidates, patents and biobanks to New Day. Whilst colorectal cancer screening is the most prominent indication, assets pertaining to test candidates for other cancers such as liver, lung or prostate tumors have also been included in the agreement. Although New Day's initial focus for colorectal cancer is expected to be on the US market, Epigenomics is seeking to transfer the global rights of all these assets. The only assets to be retained by Epigenomics are financial in nature and/or non-transferrable, such as its tax-loss carry-forwards. New Day has a contractual obligation to use reasonable commercial efforts to unlock the potential of the transferred assets and has granted Epigenomics a board observer seat. Each part bears its own costs in connection with the transaction.

The proposed transaction is a classical back-loaded deal with modest payments upfront, success-related milestone payments and royalties on future potential commercial sales of the colorectal cancer diagnostic test candidate Epi Next-Gen, which we regard as the main value driver for the foreseeable future. Specifically, the components of the agreement are:

- **Closing and cash payments totalling USD 1.8m.** These are unconditional payments Epigenomics stands to receive in three tranches following closing. The first tranche in the amount of USD 0.5m becomes payable upon closing, with a further USD 1m and USD 03.m scheduled for 1 December 2023 and 30 June 2024.
- **Milestone payments of up to USD 8m in total,** linked to the following events pertaining to the colorectal cancer test Epi proColon (which New Day is seeking to relaunch) and its potential successor, Epi Next-Gen:
  - USD 1m upon US FDA approval of Epi Next Gen, which we expect from 2027e
  - USD 2m upon reimbursement by the US Centers for Medicare and Medicaid Services (CMS), which we expect shortly after FDA approval, provided the test's sensitivity exceeds 74%
  - USD 0.1m upon the first commercial sales of Epi proColon, which looks possible in the near- to mid-term
  - USD 0.4m and USD 0.5m upon reaching sales thresholds of USD 3m and USD 5m, respectively, with Epi proColon
  - USD 0.5m upon reaching USD 10m in Epi Next-Gen sales
  - USD 1m upon reaching USD 20m in Epi Next-Gen sales
  - USD 2.5m upon reaching USD 50m in Epi Next-Gen sales
- **Earn-outs** in the form of staggered royalties on commercial sales of Epi Next-Gen and any potential successor products using Epigenomics' patents. The royalty rates and earn-out periods are as follows:
  - 5% for four years from FDA approval (we note that achievement of sales of USD 10m with a laboratory developed test in any given year prior to FDA approval would also start the clock; however, we consider such a scenario as highly unlikely)
  - 3.5% during the next two years
  - 2.5% through patent expiration in 2043e
- **An equity stake in New Day of 3%,** valued at least at USD 2.25m. The stake would be increased beyond 3% as necessary to achieve the minimum valuation.

Shareholders are set to share in the potential future success of Epi Next-Gen

Compared to Epigenomics' original proposition of in-house development and commercialization, which is no longer a viable option as the company has been unable to raise sufficient financing, Epigenomics shareholders do not partake in the full profits from Epi Next-Gen and other potential products. However, they benefit from New Day providing the funding for the development and commercialization and benefit both directly (through milestones and earn-outs) and indirectly (through their stake in New Day) in the potential regulatory and commercial success of Epi Next-Gen and other product candidates.

Capabilities & finances of New Day Diagnostics LLC

New Day intends to further improve Epigenomics' colorectal cancer test candidate and to swiftly develop it

New Day Diagnostics LLC was formed through the merger of the contract research organization (CRO) and Clinical Laboratory Improvement Amendments (CLIA) laboratory organization EDP, which had previously conducted development for Epigenomics, and the original New Day company, with diagnostic product development and commercialization focus in the US and Europe. The combined entity offers CRO and CLIA laboratory services and is marketing various products including ColoPlex, a colorectal cancer test available for research use only. New Day is seeking to augment the original Epi proColon Next Generation product with its own biomarkers to create Epi Next-Gen. We understand from Epigenomics management that New Day sees itself well-positioned to conduct a clinical study of Epi Next-Gen in a shorter timeframe and at a lower cost than Epigenomics would have been able to do even if it had succeeded in raising sufficient financing to take the test candidate forward on its own.

New Day plans to raise capital for (pre-)clinical work on Epi Next-Gen

Although New Day is a private company, Epigenomics is aware of some key financials. Notably, New Day has the means to pay USD 1.5m in upfront payments out of its existing cash position and is expected to reach break-even this year, followed by the achievement of profitability within the next one to two years. New Day will need to raise capital to conduct the preclinical and clinical work required prior to the regulatory approval of Epi Next-Gen and proposes to do so in two tranches:

- **USD 10m to USD 15m** to be raised near term, with a view to using the proceeds for the initial integration of Epigenomics' assets, notably the optimization of Epi Next-Gen and related preclinical work.
- **USD 40m to USD 60m** to be raised next year on the back of Epi Next-Gen preclinical data to fund the clinical study. We note that this amount appears far lower than the EUR 60m to EUR 80m at which Epigenomics had tagged the cost of the clinical study it had intended to conduct.

Epigenomics management believes that the above financing rounds might suffice for New Day to take Epi Next-Gen to market and to break-even, as New Day is expected to be profitable at the time of launch. This contrasts sharply with Epigenomics' plan for in-house development, which included a further post-development capital raise on the order of EUR 70m to EUR 90m.

Epi Next-Gen specifications & development

We regard Epi Next-Gen as the main value driver

We regard the developmental colorectal cancer diagnostic Epi Next-Gen as the main value driver. In this section, we provide an overview of this product candidate and delineate the preclinical and clinical studies New Day is seeking to conduct.

Product specifications & preclinical assessment

New Day is seeking to augment it by adding its own biomarker(s)

Epi Next-Gen is expected to be an *in vitro diagnostic* (ivd) kit comprising components of Epigenomics' next generation colorectal cancer diagnostic and New Day's Coloplex. Prior to its ongoing restructuring program, Epigenomics had commenced the clinical development of Epi proColon Next Generation, a colorectal cancer diagnostic test candidate that is based on 1) the Septin-9 methylation marker, 2) another methylation marker owned by Epigenomics, 3) other biomarkers owned by Epigenomics and 4) a biomarker licensed from the MD Anderson Cancer Center. Whilst the agreement with MD Anderson in respect of 4) was terminated in the context of Epigenomics' restructuring program, components 1) to 3) are among the assets to be transferred to New Day.

… and plans to conduct a preclinical study of the proposed new product

The latter company is currently commercializing its own biomarker- and computer algorithm-based research use-only colorectal cancer diagnostic test, ColoPlex. It is aiming to augment Epigenomics' Epi proColon Next Generation test detailed above by replacing the biomarker that had been licensed from MD Anderson with one of its own in-house biomarkers and is hopeful that the resulting Epi Next-Gen product candidate will have even higher sensitivity than the 84% observed at 90% specificity in Epigenomics' own preclinical study. New Day plans to conduct a preclinical study of Epi Next-Gen based on the same samples as Epigenomics' preclinical study to verify whether the proposed changes to the product candidate specifications have indeed resulted in higher sensitivity. As noted in the previous section, external financing in the amount of USD 10m to USD 15m is thought to be required for this initial post-integration step.

Epi Next-Gen looks set to have sensitivity of at least 84%, well above the reimbursement threshold

Provided that sufficient financing can be obtained, we regard the preclinical stage of Epi Next-Gen development as largely de-risked. If the addition of a New Day biomarker results in sensitivity below 84%, we would expect New Day to enter into a licensing agreement with MD Anderson and thus to revert to the product specifications of Epigenomics' original Epi proColon Next Generation product candidate. We note that the observed 84% sensitivity far exceeds the threshold of 74% that CMS have set for reimbursement and thus see a high likelihood that the sensitivity observed in a future clinical study of Epi Next-Gen will be sufficient for reimbursement, subject to regulatory approval.

We anticipate pre-clinical data from early next year

We expect New Day to commence work on Epi Next-Gen shortly after closing. Epigenomics management understands from New Day's management that the preclinical stage is expected to take approximately two months, implying that preclinical data might become available as early as January 2024.

Clinical development

First data from 2026e, pending external financing of USD 40m to USD 60m

Following the completion of pre-clinical work, New Day is expected to raise additional external financing on the order of USD 40m to USD 60m. According to Epigenomics' management, New Day regards this amount as sufficient to conduct a pivotal clinical study of Epi Next-Gen, owing to its wide network of clinics that would be able to enroll patients undergoing colonoscopy procedures into the Epi Next-Gen clinical study. Moreover, we understand from Epigenomics' management that New Day regards Epigenomics' original filing timelines as feasible. Whilst Epigenomics had not provided formal guidance with regards to development timelines, we had inferred from management commentary that clinical data could become available from 2026 onwards. We note that New Day might be able to resume enrolment into the CRC-Draw study that Epigenomics has paused since February 2023 in the context of its restructuring program.

Epi Next-Gen & Company level forecasts

In this section, we provide our US market model for Epi Next-Gen, as revenues booked by New Day determine the earn-outs to be received by Epigenomics. We regard Epi Next-Gen US sales post FDA approval as the main value driver, though we note scope for earlier revenues based on a laboratory developed test (LDT) as well as longer-term upside from other geographic markets and other cancer diagnostics.

Commercial prospects for Epi Next-Gen in the US

The US market alone represents a multi-billion-dollar opportunity for New Day

We explicitly forecast sales in the US, which represents a multi-billion-dollar opportunity based on the 30m individuals alone who currently refuse screening, with further upside to the extent that colonoscopy and stool test users might opt for an annual blood test. We also see significant potential in Europe but note typically significant lag time with respect to the adoption of diagnostic tests compared to the US.

Our US revenue model for Epi proColon Next Generation is shown below and rests on the following key assumptions:

- **Launch in 2027e.** This is our base case scenario, though we cannot rule out slippage to 2028 or beyond in the event of a delayed clinical study start pending financing, slow recruitment, or FDA delays.
- **Probability of technical & regulatory success (PTRS) of 80%.** Epigenomics had tagged the probability of market approval at 80% based on unpublished pre-clinical data. Following the strong pre-clinical data demonstrating 84% sensitivity for Epi pro Colon Next Generation, which New Day is seeking to surpass with Epi Next-Gen, we consider the risk of disappointing clinical data with sensitivity below the CMS reimbursement threshold (which determines the commercial viability, in our view) to be low. However, some clinical and regulatory risk remains, and we cannot rule out the risk of non-approval, regulatory delays or a weaker than expected label.
- **Earn-outs ending in 2043e.** While the Septin9 patent expires in 2026, other biomarkers and the combination are patented beyond 2040. We assume a modest decline in revenues from the late 2030s onwards as technological obsolescence likely sets in. We would expect New Day to develop successor products and/or tests for other cancers, implying that royalty receipts could well continue to grow through the early 2040s; however, our current valuation is based exclusively on Epi Next-Gen.
- **Eligible patient population of 95m** within three years of launch. We would expect all 100m Americans aged 45+ to be eligible to receive the test from a medical perspective (in contrast to the first-generation product, which is reserved for colonoscopy and stool test refusers owing to its performance characteristics). Provided that the test meets CMS' aforementioned performance criteria, Medicare reimbursement would essentially be granted with immediate effect upon FDA approval, implying that all Americans aged 65+ would be covered almost immediately. We would expect Epigenomics to secure coverage by commercial plans over time to gain access to individuals aged 45 to 65; based on precedents, we would expect 95% of all lives to be covered within several years.
- **Price point of $100.** This is the revenue expected to be booked by New Day per test kit sold to laboratories. CMS has set the reimbursement rate for laboratories conducting blood tests with the required performance characteristics at $192 per test. On this basis, we would expect New Day to charge its laboratory customers approximately $100 per test. We have not assumed any inflation adjustments, as the CMS reimbursement rate is not adjusted automatically. Still, we perceive scope for an increase in reimbursement rates and/or pricing flexibility on the part of New Day should inflation accelerate significantly.
- **Testing frequency: annually.** The recommended intervals for performing colorectal cancer screening are a function of each test's performance characteristics: the more sensitive and specific a test is, the longer the recommended test-free intervals. We would expect a recommendation for annual testing for a PCR-based test such as Epi Next-Gen, as we would expect the risk of false positive or negative test results to be somewhat higher than for stool-based tests or next generation sequencing approaches. We acknowledge that some patients may skip testing in some years; this is reflected in our penetration assumptions.
- **Peak penetration rate in the mid-2030s in the mid-single digits.** This prudent estimate is based on the following considerations and assumptions:
  - **Patient preference for blood tests.** Epigenomics' market research has revealed a strong patient preference for blood tests over stool tests, and this remains unchanged even after the Covid pandemic. Individuals who require annual blood tests owing to other health conditions might opt to combine them with their colorectal cancer test for convenience. We would expect some of the ca. two thirds of screening-eligible individuals who currently undergo colonoscopy or stool testing as per the guidelines to add or switch to blood tests once their front-line use is

permitted, while some of the remaining one third who currently refuse screening – Epigenomics' main target population – may reconsider their position as and when a reimbursed blood test is available. Exact Sciences' Colorectal Cancer Blood test looks set to be Epigenomics' main blood-based competitor. In the outer years, blood tests could lose share to next generation sequencing-based tests.

- **Logistical simplicity.** Blood samples are easily processed through the phlebotomy network, and large laboratories are equipped to run large numbers of tests based on Epi proColon kits. We view this as an advantage over stool tests, which typically require Clear Laboratories, and note complexity associated with sequencing.
- **Positioning.** We regard the abovementioned convenience advantages as the principal differentiator. We would not expect the test to be able to compete with high end stool tests or Next Generation Sequencing (NGS) with respect to sensitivity, where some competing products have demonstrated over 90%. However, this disadvantage can be overcompensated with shorter testing intervals, i.e., annual testing, compared with three-year intervals for Cologuard and estimated three-to-five-year intervals for NGS-based tests. We would not expect price to be a major factor in choosing between tests. While the reimbursement rate of $192 per Epi Next-Gen test is lower than the ca. $500 cost of high-end stool tests and the nearly $900 expense likely associated with NGS tests, we note that the tests carry similar costs over time, with the higher-priced tests administered less frequently. We have factored a slight late-mover disadvantage into our forecasts, as Epi Next-Gen is expected to launch more than two years after competing tests.
- **Competitors' marketing resources.** Some of New Day's competitors have significant resources at their disposal to support marketing measures such as direct-to-consumer (DTC) campaigns. This potentially reduces New Day's share of voice (though on a positive note, it also raises colon cancer awareness) and provides precedents that may be used as a benchmark to determine uptake over time as a function of marketing budgets. For example, last year, Exact Sciences noted that it anticipated selling ca. 3m Cologuard stool tests, effectively implying coverage of ca. 9m patients, or nearly 10% share of the eligible population, after considering the recommended three-year testing intervals, within six years of launch based on a ca. $0.1bn annual marketing budget. We base our Epi Next-Gen forecast on significantly lower marketing spend, with expected lower penetration rates as a corollary, although we also expect clinics and laboratories, which stand to benefit financially from the use of blood tests, to add to New Day's own share of voice. We note scope for upside if market dynamics as well as New Day's funding levels in the outer years warrant higher investment.

US REVENUE	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	2036e	2037e	2038e	2039e	2040e	2041e	2042e	2043e
Target population (m)	40	70	95	95	95	95	95	95	95	95	95	95	95	95	95	95	95	95
Price per test ($)	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Penetration rate	*0 %*	*0 %*	*1 %*	*1 %*	*2 %*	*2 %*	*3 %*	*3 %*	*4 %*	*5 %*	*5 %*	*4 %*	*4 %*	*3 %*	*3 %*	*3 %*	*2 %*	*0 %*
Epi Next-Gen sales - unadjusted (USD m)	0	28	100	125	156	195	243	304	380	475	428	385	346	312	280	252	227	45
Probability of FDA approval	*10 %*	*80 %*	*80 %*	*80 %*	*80 %*	*80 %*	*80 %*	*80 %*	*80 %*	*80 %*	*80 %*	*80 %*	*80 %*	*80 %*	*80 %*	*80 %*	*80 %*	*80 %*
Risk-adjusted US sales recognized by New Day (USD m)	0	22	80	100	125	156	195	243	304	380	342	308	277	249	224	202	182	36

Source: Company data, Pareto Securities Research

Epigenomics group forecasts

Our mid-term forecasts exclude potential milestones and earn-outs

We do not expect the value of Epi Next-Gen to be unlocked during our forecast horizon to 2025e. Our mid-term forecasts for Epigenomics reflect the company's ongoing transition from an operating firm to a holding company whose principal purpose is the receipt of milestone and royalty payments in the future. Going forward, we do not expect the company to generate material revenues, or to incur material costs other than any remaining restructuring costs not already incurred in H1 2023. Similarly, we do not expect the company to carry any material assets or working capital on its balance sheet.

The company's restructuring program ensures its viability in the mid-term

Epigenomics has largely completed its extensive restructuring program, which was designed to minimize costs and thus to maximize cash reach in the wake of the company's unsuccessful efforts to raise financing under the current adverse capital market conditions. Key elements of the restructuring program included a reduction in personnel including the executive committee, the termination of in-house development work, the termination of the ADR program and the move to a German stock market segment with lower listing standards.

Closing of the New Day transaction would further extend cash reach

The company has guided towards cash reach to H1 2025 on a standalone basis including inflows from an existing financing commitment for a rights issue in the form of shares or convertible bonds, with an undisclosed backstop agreement with its largest investor, Deutsche Balaton. Even assuming such a rights issue does not take place, we would expect the proposed transaction with New Day to further prolong cash reach until the receipt of potential milestones from 2027e. This is based on the following considerations:

- The company's cash position stood at EUR 3.6m at the end of Q2 2023 (EUR 10.1m at YE '22)
- Excluding the proposed transaction with New Day, estimated cash use in 2023e is expected to amount to ca. EUR 7m to EUR 9m
- We expect the run-rate for annual cash use to fall to ca. EUR 0.5m from mid-2024 onwards
- We estimate the net proceeds from New Day's expected upfront payments at ca. EUR 1m

Valuation: price target of EUR 3.15 per share

We estimate the value per share under the proposed transaction to be similar to that which could have been achieved on a standalone basis

We set a new net present value (NPV) based price target of EUR 3.15 per share. This is slightly above our previous valuation on a stand-alone basis of EUR 2.75 per share, which had assumed participation of Epigenomics shareholders in the full profits of Epi Next-Gen and at the same time, had factored in substantial dilution from the rights issues that we had expected to take place to secure funding for in-house test development.

Our new valuation is shown overleaf and is based on the following assumptions:

- Net proceeds from closing of the New Day transaction and cash payments of USD 1.5m by mid-2024e
- Overhead costs of EUR 0.5m in most years
- 80% probability that the milestones relating to FDA approval and CMS reimbursement (USD 3m in total) are achieved in 2027e
- Any potential milestones related to Epi proColon sales (up to UD 1m) have been excluded from our valuation and represent upside
- All milestones related to the commercial uptake of Epi Next-Gen are achieved in '27e/'28e
- Royalty rates of 5% and 3.5% are payable on projected risk-adjusted sales by New Day in the years '27e to '30e and 31e/'32e, respectively, with a 2.5% rate from '33e to '43e
- The equity stake in New Day is valued at the contractually agreed floor level of USD 2.25m
- Epigenomics has tax-loss carry-forwards (TLCFs) north of EUR 200m. This amount far exceeds the cumulative profits of less than EUR 100m that we forecast through the expiration of the methylation marker combination patents in 2043, at which point revenue streams from New Day are expected to cease. Nonetheless, we expect Epigenomics to pay taxes at a rate of ca. 30% on a portion of its potential future profits under German minimum taxation rules, which cap the TLCFs that can be taken against profits in any given year at EUR 1m plus 60% of the remaining profits.
- USD/EUR exchange rate: 1.10
- Number of shares: 6.973m. This represents the estimated fully diluted number of shares following the mandatory conversion of all outstanding convertibles by 2027e. We do not factor in any dilutive capital measures, given that the payments expected to be made by New Day are likely to be sufficient to safeguard Epigenomics' viability. We would reflect the proposed 5:1 reverse split as and when it becomes effective.
- Discount rate: 12.5%

Upside from Epigenomics' stake in New Day is hard to gauge, but could be material

Sources of upside notably include greater than expected commercial success of Epi Next-Gen in the US (raising our estimated peak penetration rate to 10% from 5% would increase our estimated fair value per share to EUR 5.64) and/or a successful launch ex-US as well as a significant appreciation in the value of Epigenomics' ca. 3% stake in New Day over time. In fact, we believe that the value of any Epi Next-Gen profits to be booked by New Day would be largely incremental to the USD 2.25m initial floor value of Epigenomics' stake in the US company. However, we caution that future financing rounds by New Day, notably the USD 40m to USD 60m raise required to conduct a clinical trial of Epi Next-Gen, looks set to dilute Epigenomics' stake. Moreover, whilst Epigenomics has a board observer seat and is thus able to oversee the fulfilment of New Day's contractual obligations under the proposed agreement, Epigenomics is unlikely to have significant input into New Day's overall strategy or future dividend payments.

Sources of downside include a scenario where New Day cannot execute on its Epi Next-Gen development plan and disappointing commercial uptake of the test

Downside risk notably arises from New Day's possible inability to execute on its operational plan, particularly if the US company fails to raise sufficient financing for the development of Epi Next-Gen. Underwhelming commercial uptake of the test represents another important downside risk.

Company fair value	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	2036e	2037e	2038e	2039e	2040e	2041e	2042e	2043e
Net proceeds from upfront payments from New Day (USDm)	1.15	0.30																			
Net proceeds from upfront payments from New Day (EURm)	1.05	0.27																			
Risk-adjusted milestone payments from New Day (USDm)					3.6	2															
Milestone payments from New Day (EURm)					3.27	2.0															
Overhead costs (EURm)	-8	-1	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Risk-adjusted sales by New Day (USDm)					22	80	100	125	156	195	243	304	380	342	308	277	249	224	202	182	36
Risk-adjusted sales by New Day (EURm)					20	72	91	113	141	177	221	276	345	311	280	252	227	204	184	165	33
Royalty rate					*5%*	*5%*	*5%*	*5%*	*3.5%*	*3.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
Earn-outs (EURm)					1.0	3.6	4.5	5.7	5.0	6.2	5.5	6.9	8.6	7.7	7.0	6.3	5.7	5.1	4.6	4.1	0.8
Pretax income (EURm)	**-7.0**	**-0.7**	**-0.5**	**-0.5**	**3.8**	**4.9**	**4.0**	**5.2**	**4.5**	**5.7**	**5.0**	**6.4**	**8.1**	**7.3**	**6.5**	**5.8**	**5.2**	**4.6**	**4.1**	**3.6**	**0.3**
German minimum tax at 30% rate (EURm)					-0.3	-0.5	-.4	-0.5	-0.4	-0.6	-0.5	-0.6	-0.9	-0.8	-0.7	-0.6	-0.5	-0.4	-0.4	-0.3	0
Net profit (EURm)	**-7**	**-0.7**	**-0.5**	**-0.5**	**3.5**	**4.5**	**3.7**	**4.7**	**4.0**	**5.1**	**4.5**	**5.8**	**7.3**	**6.5**	**5.8**	**5.2**	**4.7**	**4.2**	**3.7**	**3.3**	**0.3**
NPV of net profit at 12.5% discount rate (EURm)	**-6.2**	**-0.6**	**-0.4**	**-0.3**	**1.9**	**2.2**	**1.6**	**1.8**	**1.4**	**1.6**	**1.2**	**1.4**	**1.6**	**1.3**	**1.0**	**0.8**	**0.6**	**0.5**	**0.4**	**0.3**	**0.0**
Net cash (EURm)	**8**																				
Value of New Day stake (EURm)	**2**																				
Company fair value (EURm)	**22**																				
Number of shares (m)	**6.973**																				
Fair value per share (EURm)	**3.15**																				

Based on a USD/EUR rate of 1.1. Estimated sales and milestone payments have been risk-adjusted to reflect our assumed 80% probability of technical & regulatory success (PTRS) for Epi Next-Gen

Source: Company data, Pareto Securities Research

PROFIT & LOSS (fiscal year) (EURm)	2018	2019	2020	2021	2022	2023e	2024e	2025e
Revenues	**2**	**1**	**1**	**6**	**0**	**0**	**-**	**-**
EBITDA	**(13)**	**(14)**	**(11)**	**(2)**	**(11)**	**(6)**	**(1)**	**(0)**
Depreciation & amortisation	(0)	(1)	(1)	(0)	(1)	(2)	(0)	(0)
EBIT	**(13)**	**(15)**	**(12)**	**(2)**	**(12)**	**(8)**	**(1)**	**(1)**
Net interest	(1)	0	(0)	(0)	(0)	0	-	-
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	**(13)**	**(15)**	**(12)**	**(2)**	**(12)**	**(8)**	**(1)**	**(1)**
Taxes	1	(2)	(0)	(0)	0	-	-	-
Minority interest	-	-	-	-	-	-	-	-
Net profit	**(13)**	**(17)**	**(12)**	**(2)**	**(12)**	**(8)**	**(1)**	**(1)**
EPS reported	(15,71)	(14,54)	(8,09)	(0,87)	(2,96)	(1,97)	(0,18)	(0,11)
EPS adjusted	**(15,71)**	**(14,54)**	**(8,09)**	**(0,87)**	**(2,96)**	**(1,97)**	**(0,18)**	**(0,11)**
DPS	-	-	-	-	-	-	-	-

BALANCE SHEET (EURm)	2018	2019	2020	2021	2022	2023e	2024e	2025e
Tangible non current assets	1	2	1	1	2	0	0	0
Other non-current assets	3	0	0	0	3	-	-	-
Other current assets	2	2	2	1	1	0	0	0
Cash & equivalents	16	10	4	23	10	3	2	2
Total assets	**22**	**14**	**7**	**25**	**16**	**4**	**3**	**2**
Total equity	19	10	4	22	10	(1)	(2)	(3)
Interest-bearing non-current debt	-	-	-	-	1	-	-	-
Interest-bearing current debt	-	-	-	-	-	-	-	1
Other Debt	3	4	3	3	5	5	5	5
Total liabilites & equity	**22**	**14**	**7**	**25**	**16**	**4**	**3**	**2**

CASH FLOW (EURm)	2018	2019	2020	2021	2022	2023e	2024e	2025e
Cash earnings	(11)	(13)	(10)	(3)	(11)	(7)	(1)	(0)
Change in working capital	1	(0)	1	(1)	(1)	(0)	0	-
Cash flow from investments	(1)	1	(0)	(0)	(1)	-	(0)	(0)
Cash flow from financing	11	7	3	22	(0)	7	1	1
Net cash flow	0	(5)	(6)	18	(13)	0	-	-

VALUATION (EURm)	2018	2019	2020	2021	2022	2023e	2024e	2025e
Share price (EUR end)	**55,4**	**42,8**	**13,3**	**2,56**	**1,70**	**0,66**	**0,66**	**0,66**
Number of shares end period	1	1	1	3	4	4	4	4
Net interest bearing debt	(16)	(10)	(4)	(23)	(10)	(3)	(2)	(1)
Enterprise value	**30**	**40**	**16**	**(16)**	**(3)**	**(0)**	**0**	**2**
EV/Sales	19,8	35,3	18,6	-	-	-	-	-
EV/EBITDA	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
EV/EBIT	-	-	-	-	-	-	-	-
P/E reported	-	-	-	-	-	-	-	-
P/E adjusted	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
P/B	2,5	5,2	5,0	0,3	0,7	-	-	-

FINANCIAL ANALYSIS	2018	2019	2020	2021	2022	2023e	2024e	2025e
ROE adjusted (%)	-	-	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-	-	-
EBITDA margin (%)	-	-	-	-	-	-	-	-
EBIT margin (%)	-	-	-	-	-	-	-	-
NIBD/EBITDA	1,31	0,72	0,32	11,91	0,85	0,50	3,39	3,11
EBITDA/Net interest	-	-	-	-	-	-	-	-

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Appendix A

Disclosure requirements in accordance with Commission Delegated Regulation (EU) 2016/958 and the FINRA Rule 2241

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Companies	No. of shares	Holdings in %
Austevoll Seafood	1 052 265	0,52 %
Bonheur	243 584	0,57 %
Huddly	1 170 943	0,56 %
Pareto Bank	14 732 232	21,09 %
Pexip Holding	879 095	0,84 %
Sparebank 1 Nord-Norge	5 013 471	4,99 %
Sparebank 1 SMN	2 944 812	2,27 %
Sparebank 1 SR-Bank	2 440 402	0,95 %
SpareBank 1 Østfold Akershus	1 237 140	9,99 %
SpareBank 1 Østlandet	6 628 097	6,24 %
Sparebanken Møre	566 833	1,15 %
Sparebanken Sør	333 149	0,80 %
Sparebanken Vest	8 470 868	7,72 %
NEXT Biometrics	700 000	0,76 %
SpareBank 1 Sørøst-Norge	2 757 852	4,37 %

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Company	Analyst holdings*	Total holdings
Adevinta	0	17 950
Aker ASA	500	2 238
Aker BP	0	18 910
Aker Horizons	0	302 397
Aker Solutions	0	1 388
AMSC ASA	0	3 600
Aprila Bank ASA	0	22 675
Atlantic Sapphire	0	7 500
AURELIUS Equity Opportunities	0	500
Austevoll Seafood	0	3 548
Awilco LNG	0	30 000
Belships	0	40 000
BioInvent	0	15 000
BlueNord	0	1 000
Bonheur	0	30 714
Borregaard ASA	0	523
Bouvet	0	980
BW Energy	0	108 416
BW Offshore	0	4 900
Cool Company	0	5 000
Crayon	0	9 082
DNB	0	33 447
DNO	0	71 391
Edda Wind	0	5 000
Elkem	0	42 520
Elmera Group ASA	0	37 305
Embracer Group	0	11 509
Equinor	0	4 034
Europris	0	17 745
Flex LNG	0	895
Frontline	0	8 000
Gaming Innovation Group	0	10 000
Gjensidige Forsikring	519	1 960
Grieg Seafood	0	13 491
Hafnia Ltd.	0	119 770
Huddly	0	1 170 943
HydrogenPro	0	34 922
International Petroleum Corp	0	5 511
Kahoot	0	26 641
Kambi Group plc	0	430
Kitron	0	2 314
Komplett Bank	0	130 300
Kongsberg Gruppen	0	500
Lea bank	0	16 355
Lerøy Seafood Group	0	38 401
Mowi	0	6 004
Multitude	0	2 443
NEXT Biometrics	0	700 000
NorAm Drilling	0	6 883
NORBIT ASA	0	1 706
Nordic Semiconductor	0	11 398
Norsk Hydro	0	75 711
Norske Skog	0	95 406
Norwegian Air Shuttle	0	4 009
Odfjell Drilling	0	2 081
Okeanis Eco Tankers	0	6 206
Orkla	0	7 426
Panoro Energy	0	34 733
Pareto Bank	0	761 886
PetroTal	0	74 000
Pexip Holding	0	879 095
Protector Forsikring	0	7 300
Pyrum Innovations	0	100
Quantafuel	0	23 665
REC Silicon	0	32 539
SalMar	0	1 224
Sandnes Sparebank	0	2 500
Scatec	0	20 129
Seadrill Ltd	0	10 489
Solstad Offshore	0	122 500
Sparebank 1 Nord-Norge	725	7 794
Sparebank 1 SMN	0	6 450
Sparebank 1 SR-Bank	0	7 572
SpareBank 1 Østlandet	1 100	11 100
Sparebanken Møre	0	1 080
Sparebanken Sør	0	15 840
Sparebanken Vest	0	2 009
Sparebanken Øst	0	1 100
Stolt-Nielsen	0	3 800
Storebrand	100	3 110
Storytel	0	11 390
Subsea 7	0	21 470
Teekay Tankers	0	208
Telenor	0	3 005
TGS	0	10 830
Transocean	0	10 000
Valaris	0	3 100
Vestas Wind Systems	0	1 235
Vår Energi	0	160 229
Webstep	0	2 000
Wilh. Wilhelmsen Holding	0	229
Yara	0	17 149
Zaptec	0	16 200

This overview is updated monthly (last updated 15.06.2023).

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Appendix B

Disclosure requirements in accordance with Article 6(1)(c)(iii) of Commission Delegated Regulation (EU) 2016/958

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

Add Energy
Akershus Energi Varme AS
American Shipping Company
Archer
B2Holding AS
Bekk og Strøm AS, SV Vattenkraft AB
Benchmark Holdings
BioInvent
Bluewater Holding
Borr Drilling
Cadeler
CCS Finansiering AS
CERAFILTEC
Cloudberry Clean Energy
COOL Company
DNO
Dolphin Drilling
Edda Wind
EdR Certified Origin Physical Gold Plc
Eidesvik Offshore
Endur ASA
Fertiberia Corporate S.L.U.
First Camp Group
Fishbase Group AS
Floatel
Golar LNG
Hafnia Ltd.
Hertha BSC
Hospitality Invest
House of Control
HydrogenPro
Idavang A/S
Instabank ASA
Island Green Power Ltd
Kezzler AS
KMC Properties
Komplett Bank
Kraft Bank
Kron AS
Kruse Smith
Kvitebjørn Energi AS
Magnora ASA
Maha Energy
Memmo Family
Mime Petroleum
Morrow Bank
Mutares SE & Co. KGaA
NorAm Drilling
Nordic Unmanned
Noreco
Norlandia Health & Care Group
Norse Atlantic
Norske Skog
Northern Ocean
PGS
PHM Group Holding Holding
Polight ASA
Prosafe
Proximar Seafood
PulPac AB
Quality Living Residential AS
ReFuels
ReFuels N.V
RelyOn Nutec A/S
Salmon Evolution
Scala Eiendom
Schletter International B.V
Seacrest Petroleo
Skandia GreenPower
Standard Supply AS
Tasik Toba Subsea AS
Tise AS
Treasure ASA
Vantage Drilling International
Viking Venture 27 AS
Viking Venture 28 AS
Waldorf Production Ltd.
Wattif EV
wheel.me
Ziton A/S

This overview is updated monthly (this overview is for the period 01.06.2022 – 31.05.2023).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading Regulation § 3-11 (4)

Distribution of recommendations

Recommendation	% distribution
Buy	73 %
Hold	25 %
Sell	2 %

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	100 %
Hold	0 %
Sell	0 %

* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months

This overview is updated monthly (last updated 12.06.2023).

Appendix D

This section applies to research reports prepared by Pareto Securities AB.

Disclosure of positions in financial instruments
The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

Disclosure of assignments and mandates
Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

ADDvise Group AB
Adtraction Group AB
Artificial Solutions International AB
Azelio AB
Boule Diagnostics AB
Cibus Nordic Real Estate AB
Cinis Fertilizer AB
Hanza AB
Hexicon AB
Linkfire A/S
Media & Games Invest plc
NGEx Minerals Ltd
Renewcell AB
Xbrane Biopharma AB
Xspray Pharma AB
Vicore Pharma Holding AB
VNV Global AB

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universe:

Adtraction AB
Implantica AG
Linkfire
Media & Games Invest plc.
Mentice AB
Modelon AB
Sedana Medical AB
Signup Software AB
VEF

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None

Member of the Pareto Group is providing Business Management services to the following companies:

Aarhus Rssidentials
Backaheden Fastighets AB
Bonäsudden Holding AB (publ)
Borglanda Fastighets AB
Fleming Properties AB
Hallsell Property Invest AB
Korsängen Fastighets AB (publ)
Krona Public Real Estate AB
Logistri Fastighets AB
Mälaråsen AB
One Publicus Fastighets AB
Origa Care AB (publ)
Preservium Property AB

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None

This overview is updated monthly (last updated 14.07.2023).

Appendix E

Disclosure requirements in accordance with Article 6(1)(c)(i) of Commission Delegated Regulation (EU) 2016/958

Designated Sponsor
Pareto Securities acts as a designated sponsor for the following companies, including the provision of bid and ask offers. Therefore, we regularly possess shares of the company in our proprietary trading books. Pareto Securities receives a commission from the company for the provision of the designated sponsor services.

2G Energy AG
ad pepper media International N.V.
Biotest AG
Biotest AG Pfd.
Corestate Capital Holding S.A.
Daldrup & Söhne AG
DEMIRE AG
DF Deutsche Forfait AG
epigenomics AG
Foris AG
Gesco AG
GFT Technologies SE
Gigaset AG
Heidelberg Pharma AG
INTERSHOP Communications AG
IVU Traffic AG
Kontron AG
Leifheit AG
Logwin AG
manz AG
MAX Automation SE
Merkur Privatbank AG
Meta Wolf AG
MLP SE
MPC Container Ships ASA
Muehlhahn AG
Mutares SE & Co. KGaA
OVB Holding AG
ProCredit Holding AG
Progress-Werk Oberkirch AG
Pryme B.V.
PSI AG
Pyrum Innovations AG
Salmones Camanchaca S.A.
Seven Principles AG
SHOP APOTHEKE EUROPE N.V.
SMT Scharf AG
Surteco AG
Syzygy AG
TTL Beteiligungs- und Grundbesitz AG
Uzin Utz SE
VERIANOS SE
Viscom AG
WPU - Waste Plastic Upcycling AS

Appendix F

Disclosure requirements in accordance with Article 6(1)(c)(iv) of Commission Delegated Regulation (EU) 2016/958

Sponsored Research
Pareto Securities has entered into an agreement with these companies about the preparation of research reports and – in return - receives compensation.

2G Energy AG
BayWa AG
BB Biotech AG
Biotest AG
Biotest AG Pfd.
Cliq Digital AG
Daldrup & Söhne AG
Delignit
Dermapharm Holding SE
Enapter AG
epigenomics AG
Expres2ion Biotech Holding AB
Gesco AG
GFT Technologies SE
Gigaset AG
Heidelberg Pharma AG
Hypoport SE
INTERSHOP Communications AG
Kontron AG
Leifheit AG
Logwin AG
MAX Automation SE
Merkur Privatbank AG
MLP SE
Mutares SE & Co. KGaA
Mynaric AG
OHB SE
ProCredit Holding AG
Progress-Werk Oberkirch AG
PSI AG
Siegfried Holding AG
SMT Scharf AG
Surteco AG
Syzygy AG
Viscom AG

This overview is updated monthly (last updated 17.07.2023).