

Pharming Group NV

Netherlands / Biotechnology
 Primary exchange: Euronext Amsterdam /
 Secondary exchange: Frankfurt
 Bloomberg: PHARM NA
 ISIN: NL0010391025

Update/8M results

RATING	BUY
PRICE TARGET	€1.40
Return Potential	542.2%
Risk Rating	High

EGM APPROVES VALEANT TRANSACTION AND CAPITAL RAISE

Shareholders approved all the proposals on the agenda at Pharming's EGM on 5 October, thus clearing the way for the acquisition from Valeant of the North American commercialisation rights to Ruconest and the capital raise which will be necessary to finance it. Figures for the first eight months of the year released two days ahead of the EGM lend credence to the management statement that Pharming will be profitable at the EBIT level in 2017, subject to completion of the transaction, and show the company broadly on track to reach the 2016E forecasts published in our most recent study of 30 August. These numbers were based on the assumption that the transaction would not close until the end of the year. Management now expects closing during November. If the December P&L includes 100% of North American Ruconest revenues rather than just the 30% which Pharming is currently booking, our numbers are likely to be exceeded. The structure of the transaction (the split between straight debt, convertibles and straight equity) has still to be finalised, but management has indicated that minimisation of shareholder dilution is a priority. Pending publication of this information, we are leaving our forecasts and valuation unchanged. We maintain our Buy recommendation and price target of €1.40.

Capital raise now looks set to include convertible bonds Pharming is looking to raise between €73m and €90m. In the EGM invitation of 23 August management specified that between €35m and €60m of this figure should be equity and between €30m and €55m debt. Management's current thinking is that debt will account for between €25m and €30m (or ca. €45m if the €14.6m debt outstanding with Oxford Finance LLC and Silicon Valley Bank is refinanced). The remaining €48m-€65m will be raised from the issue of a combination of straight equity and convertibles. The straight equity will be raised through a rights issue. Management has not yet stated how large this will be... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	6.84	21.19	10.83	12.86	45.60	65.30
Y-o-y growth	-35.5%	209.6%	-48.9%	18.8%	254.5%	43.2%
EBIT (€m)	-6.91	2.88	-12.83	-12.23	5.76	12.26
EBIT margin	-101.0%	13.6%	-118.5%	-95.1%	12.6%	18.8%
Net income (€m)	-15.06	-5.77	-9.96	-13.25	3.17	9.92
EPS (diluted) (€)	-0.07	-0.02	-0.02	-0.03	0.01	0.02
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-8.05	-3.23	-17.32	-79.42	-4.45	2.19
Net gearing	-302.8%	-109.9%	-67.0%	33.2%	39.0%	30.2%
Liquid assets (€m)	16.97	34.19	31.64	25.93	16.89	14.10

RISKS

The main risks to our price target include slower sales growth for Ruconest in the EU and the US than we currently model.

COMPANY PROFILE

Pharming develops and produces therapeutic proteins from the milk of genetically modified rabbits. Pharming and Chinese SIPI signed a collaboration agreement in 2013, which will accelerate the addition of new projects to the firm's R&D pipeline. Lead drug Ruconest received EMA approval in 2010 and FDA approval in July 2014.

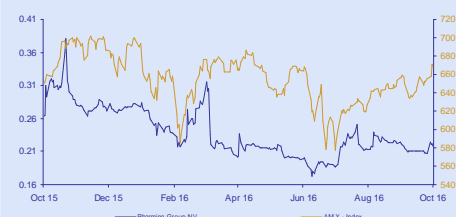
MARKET DATA

As of 06 Oct 2016

Closing Price	€ 0.22
Shares outstanding	412.56m
Market Capitalisation	€ 89.94m
52-week Range	€ 0.17 / 0.38
Avg. Volume (12 Months)	2,833,501

Multiples	2015	2016E	2017E
P/E	n.a.	n.a.	42.5
EV/Sales	8.1	6.8	1.9
EV/EBIT	n.a.	n.a.	15.2
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Aug 2016

Liquid Assets	€ 17.80m
Current Assets	€ 41.57m
Intangible Assets	€ 0.69m
Total Assets	€ 49.44m
Current Liabilities	€ 17.37m
Shareholders' Equity	€ 15.99m

SHAREHOLDERS

Kingdon Capital Management LLC	3.1%
Free Float	96.9%



...but has indicated that it will be made at a relatively small discount of around 10-15% to the volume weighted average share price over a still to be defined period ending 5 October.

Institutional investors to underwrite the transaction to ensure its completion The total consideration for the acquisition is USD125m of which USD60m is an upfront payment and USD65m self-funding milestones. To ensure that the upfront payment can be made and that the transaction can close, Pharming plans that institutional investors in the EU and US should subscribe to the convertible or underwrite the rights issue. The underwriting institutional investors will be paid “a small compensation” in warrants with a strike price above the rights issue price.

Minimisation of shareholder dilution is a priority The underwriting investors will only be eligible to take part in the issue once existing shareholders have taken up all the rights they wish, but subscriptions for convertible bonds will be binding subject to closure of the issue. Management has indicated that allocation of the equity portion of the capital raise between the rights issue and the convertible bond will fluctuate according to market conditions but that minimisation of shareholder dilution is a priority.

Figure 1: First eight months results (€000's)

	A Proforma 8M 2016	B Actual 8M 2016	Δ A vs. B	C Actual Jul-Aug 2016	D Actual Jul-Aug 2015	Δ C vs. D	Proforma Jul-Aug 2016	Proforma H1 2016	E Actual 8M 2015	Δ B vs. E
Revenue	18,400	7,667	139%	2,393	1,899	26%	4,900	13,500	7,134	7%
License fees	700	1,471	-53%	367	357	3%	-400	1,100	1,471	0%
Product sales	17,700	6,196	186%	2,026	1,532	32%	5,300	12,400	5,663	9%
of which:										
Ruconest N. America (€m)	16.5	5.0	230%	1.5	0.9	67%	4.8	11.7	3.9	28%
Ruconest ex-N. America (€m)	1.2	1.2	0%	0.5	0.6	-17%	0.5	0.7	1.8	-33%
Gross profit margin (%)	15,400	4,664	228%	1,394	942	228%	3,900	11,500	3,826	22%
Costs	-18,600	-13,156	n.m.	-3,480	-4,176	n.m.	-3,900	-14,700	-11,995	n.m.
EBIT	-3,200	-8,250	n.m.	-2,039	-2,014	n.m.	-100	-3,100	-8,076	n.m.
EPS (€)	-0.013	-0.022	n.m.	-0.006	-0.005	n.m.	0.000	-0.013	-0.014	n.m.

Source: Pharming

8M numbers show Pharming broadly on track to reach our 2016E forecasts Pharming released figures (see figure 1 above) for the first eight months of 2016 on 3 October to facilitate decision-making at the EGM. The numbers show the company broadly on track to reach the forecasts published in our most recent study of 30 August. Actual product sales in the US came in at €1.5m for the period July and August. If we gross this figure up by 1.5x as an approximation to the Q3 numbers (due on 27 October) we arrive at ca. €2.3m. This compares with our forecast of €2.4m. Product sales outside the US were €0.5m. Grossing this figure up to arrive at a Q3 number, we get ca. €0.8m - above our forecast of €0.5m. Performing the same exercise with gross profit we arrive at €2.1m vs. our forecast of €2.3m. The gross margin was below our forecast because sales outside the US are less profitable than US sales. However, this deficit was made good at the EBIT level where grossing up the July-August number produces a figure of €-3.1m which is in line with our forecast.

July/August proforma EBIT close to breakeven On a proforma basis (i.e. assuming that Pharming receives 100% of US Ruconest revenues rather than the 30% it currently books under the terms of its commercialisation deal with Ruconest), EBIT came in at €-0.1m during July-August which lends credence to management statements that the company will be profitable at the EBIT level in 2017 subject to completion of the transaction.

We maintain our Buy recommendation and price target of €1.40 In our most recent study of 30 August; we assumed a closing date for the transaction of 31 December. In the presentation accompanying the EGM, management state they expect the transaction to close in November. This suggests that our 2016E forecasts will be exceeded. However,



pending finalisation of the structure of the transaction (publication of an issue prospectus is expected for the end of October), we are leaving our forecasts and valuation unchanged. We maintain our Buy recommendation and price target of €1.40.

Figure 2: Pipeline valuation

Compound	Project ¹⁾	Present Value	Patient Pop	Treatment Cost	Market Size	Market Share	Peak Sales	PACME Margin ²⁾	Discount Factor	Patent Life ³⁾	Time to Market
Ruconest (EU)	HAE-AA	€114.9M	4K	€90,909	€318M	20%	€79M	61%	0%	15	-
Ruconest (US)	HAE-AA	€1,215.2M	5K	€136,364	€727M	25%	€378M	86%	10%	12	-
Ruconest (EU)	HAE-PR	€48.8M	1K	€272,727	€250M	20%	€62M	61%	5%	6	3 Years
Ruconest (US)	HAE-PR	€479.9M	2K	€409,091	€636M	25%	€401M	86%	15%	7	3 Years
PACME PV		€1,858.8M			€1,932M		€920M				
Costs PV ⁴⁾		€982.9M									
NPV		€875.9M									
Milestones PV		-€26.9M									
Net Cash (pro-forma)		€60.1M									
Fair Value		€909.1M									
Share Count (fully diluted)		645,370K									
Fair value per share		€1.41									

1) A project typically refers to a specific indication or, where necessary or relevant, a combination between indication and geographic market

2) PACME (Profit After Costs and Marketing Expenses) reflects the company's profit share on future revenues. This share may be derived in the form of royalties (outsourced marketing/manufacturing) or operating EBITDA margin (in-house model), or some mix of both (depending on the specific parameters of partnership agreements)

3) Remaining patent life after the point of approval

4) Includes company-level R&D, G&A, Financing Costs and CapEx; COGS and S&M are factored into the PACME margin for each project

Source: First Berlin Equity Research



INCOME STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016E	2017E	2018E
Revenues	6,844	21,186	10,828	12,864	45,600	65,300
Costs of sales	-1,112	-3,427	-4,800	-4,334	-6,840	-9,795
Gross profit	5,732	17,759	6,028	8,530	38,760	55,505
Other income	106	105	147	275	0	0
Research and development	-10,232	-11,663	-14,180	-15,529	-22,500	-29,000
General and administrative	-2,518	-3,324	-3,744	-4,299	-7,000	-8,500
Marketing and sales	0	0	-1,085	-1,208	-3,500	-5,750
Operating income (EBIT)	-6,912	2,877	-12,834	-12,231	5,760	12,255
Net financial income	-8,148	-8,644	2,877	-1,023	-2,593	-2,338
Pre-tax income (EBT)	-15,060	-5,767	-9,957	-13,254	3,167	9,917
Income taxes	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0
Net income / loss	-15,060	-5,767	-9,957	-13,254	3,167	9,917
Diluted EPS	-0.07	-0.02	-0.02	-0.03	0.01	0.02
EBITDA	-5,992	3,915	-10,477	-11,663	6,862	13,418
Ratios						
Gross margin on revenues	83.8%	83.8%	55.7%	66.3%	85.0%	85.0%
EBITDA margin on revenues	n.m.	18.5%	n.m.	n.m.	15.0%	20.5%
EBIT margin on revenues	n.m.	13.6%	n.m.	n.m.	12.6%	18.8%
Net margin on revenues	n.m.	n.m.	n.m.	n.m.	6.9%	15.2%
Expenses as % of revenues						
Cost of sales	16.2%	16.2%	44.3%	33.7%	15.0%	15.0%
Research and development	149.5%	55.1%	131.0%	120.7%	49.3%	44.4%
General and administrative	36.8%	15.7%	34.6%	33.4%	15.4%	13.0%
Marketing and sales	n.m.	n.m.	10.0%	9.4%	7.7%	8.8%
Y-Y Growth						
Revenues	-35.5%	209.6%	-48.9%	18.8%	254.5%	43.2%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	112.8%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	213.2%



BALANCE SHEET

All figures in EUR '000	2013A	2014A	2015A	2016E	2017E	2018E
Assets						
Current assets, total	24,599	49,143	51,092	53,587	55,645	66,337
Cash and cash equivalents	16,968	34,185	31,643	25,929	16,885	14,097
Receivables	860	1,554	3,220	5,789	11,400	16,325
Inventories	4,763	13,404	16,229	21,869	27,360	35,915
Other current assets	2,008	0	0	0	0	0
Non-current assets, total	6,809	6,575	6,585	61,143	62,211	63,351
Property, plant & equipment	6,228	5,598	5,661	6,175	7,296	8,489
Goodwill & other intangibles	405	777	724	54,768	54,715	54,662
Other assets	176	200	200	200	200	200
Total assets	31,408	55,718	57,677	114,730	117,856	129,688
Shareholders' equity & debt						
Current liabilities, total	12,925	14,873	13,475	14,932	20,796	23,293
Short term debt	0	0	3,047	5,000	5,000	2,721
Deferred license fee income	2,200	2,200	2,207	2,207	2,207	2,207
Derivative financial liabilities	4,147	4,266	953	953	953	953
Trade and other payables	5,812	7,781	7,005	5,789	11,400	16,325
Finance lease liabilities	766	626	263	983	1,236	1,087
Longterm liabilities, total	13,473	11,002	20,363	44,213	38,309	37,727
Long term debt	0	0	11,757	37,721	32,721	30,000
Deferred license fee income	12,222	10,022	7,808	5,622	4,560	6,530
Finance lease liabilities	1,207	965	798	870	1,028	1,197
Other liabilities	44	15	0	0	0	0
Minority interests	0	0	0	0	0	0
Shareholders equity	5,010	29,843	23,839	55,585	58,752	68,669
Total consolidated equity and debt	31,408	55,718	57,677	114,730	117,856	129,688
Ratios						
Current ratio (x)	1.90	3.30	3.79	3.59	2.68	2.85
Quick ratio (x)	1.53	2.40	2.59	2.12	1.36	1.31
Net gearing	-302.8%	-109.9%	-67.0%	33.2%	39.0%	30.2%
Book value per share (€)	0.01	0.07	0.06	0.09	0.10	0.11
Net cash	-15,171	-32,794	-15,978	18,445	22,899	20,707
Return on equity (ROE)	n.m.	-33.1%	-37.1%	-33.4%	5.5%	15.6%



CASH FLOW STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016E	2017E	2018E
EBIT	-6,912	2,877	-12,834	-12,231	5,760	12,255
Depreciation and amortization	920	1,038	2,357	568	1,102	1,163
EBITDA	-5,992	3,915	-10,477	-11,663	6,862	13,418
Other adjustments	-2,301	-6,488	-5,945	-12,634	-9,147	-8,923
Operating cash flow	-8,293	-2,573	-16,422	-24,297	-2,285	4,495
CAPEX	241	-654	-898	-55,125	-2,170	-2,303
Free cash flow	-8,052	-3,227	-17,320	-79,423	-4,455	2,192
Debt financing, net	16,023	-682	15,524	28,709	-4,589	-4,980
Equity financing, net	12,178	19,375	483	45,000	0	0
Other changes in cash	-5,454	-1,249	-1,229	0	0	0
Net cash flows	14,695	14,217	-2,542	-5,714	-9,044	-2,788
Cash, start of the year	5,273	19,968	34,185	31,643	25,929	16,885
Cash, end of the year	19,968	34,185	31,643	25,929	16,885	14,097
EBITDA/share	-0.03	0.01	-0.03	-0.03	0.01	0.02
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA/share	n.m.	n.m.	n.m.	n.m.	n.m.	95.5%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	10 November 2009	€0.52	Buy	€0.70
2...30	↓	↓	↓	↓
31	20 May 2016	€0.24	Buy	€1.00
32	29 July 2016	€0.22	Buy	€1.00
33	30 August 2016	€0.22	Buy	€1.40
34	Today	€0.22	Buy	€1.40

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- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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