

Pharming Group NV

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

Q1 results/refinancing

RATING	BUY
PRICE TARGET	€ 1.40
Return Potential	340.3%
Risk Rating	High

RAISING PRICE TARGET ON STRONG RESULTS/REDUCED DILUTION

Following the acquisition of US marketing rights in Q4/16, Q1/17 was the first full quarter in which Pharming booked 100% of Ruconest's US revenues. The Q1/17 product revenue figure of €15.2m was 38% above our forecast of €11m and 88% above the Q3/16 proforma number of €8.1m (which is the most recently available proforma number showing sales on the basis of 100% of US Ruconest revenues). On the basis of upward revisions to our forecasts and less dilution due to the elimination of the shares held in reserve to repay the now refinanced amortising convertible bond, we revise our price target up from €1.20 to €1.40. We maintain our Buy recommendation.

Q1/17 Ruconest sales 88% above most recent available Q3/16 comparator
 Pharming's Q1 results showed a 598% increase in revenue to €15.5m (Q1/16: €2.2m) while EBIT moved into the black at €3.9m (Q1/16: €-3.2m). The jump in revenue was driven by product sales which were up 814% at €15.2m (Q1/16: €1.7m) following the acquisition of the US commercialisation rights to lead product, Ruconest, in December 2016. Since the acquisition of the US commercialisation rights, 100% of US Ruconest sales accrue to Pharming compared with 30% before the deal. Ahead of the acquisition of the US marketing rights to Ruconest, Pharming published proforma product revenue numbers showing 100% of US Ruconest sales. For Q3/16 this figure showed revenue of €8.1m. Q1/17 product revenue of €15.2m was 88% above this number.

Gross margin at 89.0% in Q1/17 Gross profit came in at €13.8m (Q1/16: €1.6m), equivalent to a gross margin of 89.0% (Q1/16: 70.3%). R&D expenses climbed 26.9% to €4.7m (Q1/16: €3.7m). R&D spending focused on further steps towards the approval of Ruconest in prophylaxis of HAE and also on the new pipeline programmes in Pompe disease and Fabry disease. Marketing expense of €3.9m (Q1/16: €0.2m) reflected investment in additional marketing team members and medical science liaison professionals. (p.t.o)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016	2017E	2018E
Revenue (€m)	6.84	21.19	10.83	15.87	68.76	87.07
Y-o-y growth	-35.5%	209.6%	-48.9%	46.6%	333.2%	26.6%
EBIT (€m)	-6.91	2.88	-12.83	-11.54	14.50	19.74
EBIT margin	-101.0%	13.6%	-118.5%	-72.7%	21.1%	22.7%
Net income (€m)	-15.06	-5.77	-9.96	-17.54	0.29	11.80
EPS (diluted) (€)	-0.07	-0.02	-0.02	-0.04	0.00	0.03
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-8.05	-3.23	-18.14	-67.48	-2.77	6.13
Net gearing	-302.8%	-109.9%	-67.0%	128.4%	130.3%	59.0%
Liquid assets (€m)	16.97	34.19	31.64	31.89	34.12	40.05

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 18 May 2017

Closing Price	€ 0.32
Shares outstanding	484.58m
Market Capitalisation	€ 154.10m
52-week Range	€ 0.17 / 0.35
Avg. Volume (12 Months)	4,314,611

Multiples	2016	2017E	2018E
P/E	n.a.	494.7	12.3
EV/Sales	12.1	2.8	2.2
EV/EBIT	n.a.	13.3	9.7
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2017

Liquid Assets	€ 31.89m
Current Assets	€ 66.11m
Intangible Assets	€ 56.15m
Total Assets	€ 131.44m
Current Liabilities	€ 61.59m
Shareholders' Equity	€ 28.94m

SHAREHOLDERS

Kingdon Capital Management LLC	3.1%
Free Float	96.9%



In late 2016 management held out the prospect that acquisition of the US marketing rights to Ruconest would allow the company to reach operating profitability during 2017. This goal was achieved in the first quarter with EBIT of €3.9m (Q1/16: €-3.2m). Operating cashflow was €-4.9m in Q1/17 (Q1/16: €-2.9m) but would also have been positive had it not been for delayed trade payments which were received in April.

Only €1.8m of €9.6m net financial expense was cash Net financial expense amounted to €9.6m in Q1/17 (Q1/16: €0.2m). This figure consisted of €2.4m in fair value losses on revaluation of derivatives and €7.2m in other financial expenses. The first figure relates to changes in the fair value of the 88.0m warrants issued in December with the senior debt, convertible bond and the amortising convertible bond. The second figure relates to i) interest on the senior debt and convertible bond (€1.8m) ii) changes in the fair value of the convertibles' conversion rights iii) the change in the fair value of the 2.3m warrants issued as part of the financing agreement with Oxford Finance LLC and Silicon Valley Bank in 2015 iv) effective interest on the senior debt and convertibles insofar as it differed from the actual debt.

Reduction in dilutive shares equivalent to 23.8% of outstanding share capital On 16 May - the day before the announcement of the first quarter results - Pharming announced the refinancing of its senior debt of USD40m (€36.7m) and amortising convertible bond of €35.9m (USD39.1m) through the issue of a new USD100m (€91.7m) senior secured debt facility and 9m warrants. Early repayment fees on the senior debt and the amortising convertible bond will be €6.6m and €9m respectively - a total of €15.6m. The refinancing will eliminate 124.2m shares reserved for the conversion of the amortising convertible bonds from the dilutive share count. Taking into account the 9m warrants issued with the new senior secured debt, the reduction in the dilutive share count will be 115.2m shares – or 23.8% of the currently outstanding share capital.

Figure 1: Q4/16 and FY/16 results versus our forecasts

All figures in €m	Q1-17A	Q1-17E	Delta	Q1-16A	Delta
Sales	15.46	11.50	34.4%	2.21	598.3%
EBIT	3.87	2.30	68.3%	-3.17	-
margin	neg.	neg.	-	neg.	-
Net income	-5.75	-4.70	-	-3.39	-
margin	neg.	neg.	-	neg.	-
EPS (in €)	-0.012	-0.010	-	-0.008	-

Source: First Berlin Equity Research estimates, Pharming Group NV

We raise our price target to €1.40 and maintain our Buy recommendation The Q1/17 results were well above our forecasts (see figure 1 above). We have adjusted our full year forecasts as shown in figure 2. Our net income forecasts do not rise in line with our sales and EBIT numbers because debt in Pharming is now all interest-bearing, whereas the amortising convertible bond was non-interest bearing.

Figure 2: Changes to our forecasts

All figures in €m	2017E			2018E		
	Old	New	Delta	Old	New	Delta
Sales	51.10	68.76	34.6%	69.30	87.07	25.6%
EBIT	10.44	14.50	138.9%	15.65	19.74	26.1%
margin	20.4%	21.1%	-	22.6%	22.7%	-
Net income	5.67	0.29	-94.8%	11.53	11.80	2.3%
margin	11.1%	0.4%	-	16.6%	13.6%	-
EPS (in €)	0.01	0.00	-94.8%	0.03	0.03	2.3%

Source: First Berlin Equity Research



Our net financial expense forecast for 2017 also includes a one-time item in Q2 (which we forecast at €5m) due to the reversal of IFRS accounting entries in respect of the instruments which were refinanced. The upward revision to our sales and EBIT numbers and lower dilution as a result of the refinancing of the amortising convertible bond cause us to raise our valuation to €1.40 per share (previously €1.20 per share). We maintain our Buy recommendation.

Figure 3: Pipeline valuation

Compound	Project ¹⁾	Present Value	Patient Pop	Treatment Cost	Market Size	Market Share	Peak Sales	Gross margin	Discount Factor	Patent Life ²⁾	Time to Market
Ruconest (EU)	HAE-AA	€107.7M	4K	€90,909	€318M	20%	€79M	60%	0%	15	-
Ruconest (US)	HAE-AA	€1,259.8M	5K	€136,364	€727M	25%	€378M	90%	10%	12	-
Ruconest (EU)	HAE-PR	€45.8M	1K	€272,727	€250M	20%	€62M	60%	5%	6	3 Years
Ruconest (US)	HAE-PR	€479.9M	2K	€409,091	€636M	25%	€401M	90%	15%	7	3 Years
PV of gross profits		€1,893.2M			€1,932M		€920M				
Costs PV		€977.9M									
NPV		€915.2M									
Milestones PV		-€26.6M									
Net Cash (pro-forma)		€5.2M									
Fair Value		€893.8M									
Share Count (fully diluted)		629,641K									
Fair value per share		€1.42									

1) A project typically refers to a specific indication or, where necessary or relevant, a combination between indication and geographic market
2) Remaining patent life after the point of approval

Source: First Berlin Equity Research estimates

Figure 4: Changes to our pipeline valuation model

	Old	New	Delta
PV of gross profits	€1,865.0M	€1,893.2M	1.5%
Costs PV	€992.8M	€977.9M	-1.5%
NPV	€872.1M	€915.2M	4.9%
Milestones PV	-€26.9M	-€26.6M	0.0%
Net Cash	€0.8M	€5.2M	545.3%
Fair Value	€846.0M	€893.8M	5.6%
Share Count	728,927K	629,641K	-13.6%
Fair value per share	€1.16	€1.42	22.3%

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016A	2017E	2018E
Revenues	6,844	21,186	10,828	15,873	68,764	87,072
Costs of sales	-1,112	-3,427	-4,800	-4,683	-7,577	-9,632
Gross profit	5,732	17,759	6,028	11,190	61,187	77,440
Other income	106	105	147	335	84	0
Research and development	-10,232	-11,663	-14,180	-15,388	-22,589	-29,000
General and administrative	-2,518	-3,324	-3,744	-4,642	-6,975	-8,900
Marketing and sales	0	0	-1,085	-3,035	-17,211	-19,800
Operating income (EBIT)	-6,912	2,877	-12,834	-11,540	14,496	19,740
Net financial income	-8,148	-8,644	2,877	-5,996	-14,203	-7,940
Pre-tax income (EBT)	-15,060	-5,767	-9,957	-17,536	293	11,800
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	-17,536	293	11,800
Diluted EPS	-0.07	-0.02	-0.02	-0.04	0.00	0.03
EBITDA	-5,992	3,915	-11,871	-10,851	16,131	21,273
Ratios						
Gross margin on revenues	83.8%	83.8%	55.7%	70.5%	89.0%	88.9%
EBITDA margin on revenues	n.m.	18.5%	n.m.	n.m.	23.5%	24.4%
EBIT margin on revenues	n.m.	13.6%	n.m.	n.m.	21.1%	22.7%
Net margin on revenues	n.m.	n.m.	n.m.	n.m.	0.4%	13.6%
Expenses as % of revenues						
Cost of sales	16.2%	16.2%	44.3%	29.5%	11.0%	11.1%
Research and development	149.5%	55.1%	131.0%	96.9%	32.9%	33.3%
General and administrative	36.8%	15.7%	34.6%	29.2%	10.1%	10.2%
Marketing and sales	n.m.	n.m.	10.0%	19.1%	25.0%	22.7%
Y-Y Growth						
Revenues	-35.5%	209.6%	-48.9%	46.6%	333.2%	26.6%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	36.2%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	3930.7%



BALANCE SHEET

All figures in EUR '000	2013A	2014A	2015A	2016A	2017E	2018E
Assets						
Current assets, total	24,599	49,143	51,092	62,190	74,005	90,556
Cash and cash equivalents	16,968	34,185	31,643	31,889	34,122	40,055
Receivables	860	1,554	3,220	12,360	16,503	20,897
Inventories	4,763	13,404	16,229	17,941	23,380	29,604
Other current assets	2,008	0	0	0	0	0
Non-current assets, total	6,809	6,575	6,585	64,593	65,127	66,400
Property, plant & equipment	6,228	5,598	5,661	6,043	8,252	9,578
Long term prepayments	0	0	0	1,622	0	0
Goodwill & other intangibles	405	777	724	56,680	56,627	56,574
Other assets	176	200	200	248	248	248
Total assets	31,408	55,718	57,677	126,783	139,132	156,956
Shareholders' equity & debt						
Current liabilities, total	12,925	14,873	13,475	51,378	35,994	31,962
Debt	0	0	3,047	26,136	885	885
Deferred license fee income	2,200	2,200	2,207	943	943	943
Derivative financial liabilities	4,147	4,266	953	9,982	17,400	8,973
Trade and other payables	5,812	7,781	7,005	14,054	16,503	20,897
Finance lease liabilities	766	626	263	263	263	263
Longterm liabilities, total	13,473	11,002	20,363	47,938	77,795	79,426
Debt	0	0	11,757	40,395	65,846	65,846
Deferred license fee income	12,222	10,022	7,808	2,270	6,876	8,707
Finance lease liabilities	1,207	965	798	599	399	199
Other liabilities	44	15	0	4,674	4,674	4,674
Minority interests	0	0	0	0	0	0
Shareholders equity	5,010	29,843	23,839	27,467	25,342	45,568
Total consolidated equity and debt	31,408	55,718	57,677	126,783	139,132	156,956
Ratios						
Current ratio (x)	1.90	3.30	3.79	1.21	2.06	2.83
Quick ratio (x)	1.53	2.40	2.59	0.86	1.41	1.91
Net gearing	-302.8%	-109.9%	-67.0%	128.4%	130.3%	59.0%
Book value per share (€)	0.01	0.07	0.06	0.06	0.06	0.10
Net debt	-15,171	-32,794	-15,978	35,256	33,023	26,890
Return on equity (ROE)	n.m.	-33.1%	-37.1%	-68.4%	1.1%	33.3%



CASH FLOW STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016A	2017E	2018E
EBIT	-6,912	2,877	-12,834	-11,540	14,496	19,740
Depreciation and amortization	920	1,038	963	756	1,635	1,533
EBITDA	-5,992	3,915	-11,871	-10,784	16,131	21,273
Changes in working capital	-552	-7,474	-5,267	642	-904	-4,394
Other adjustments	-1,749	986	-103	138	-14,203	-7,940
Operating cash flow	-8,293	-2,573	-17,241	-10,004	1,023	8,939
CAPEX	241	-654	-898	-57,474	-3,790	-2,806
Free cash flow	-8,052	-3,227	-18,139	-67,478	-2,767	6,133
Debt financing, net	16,023	-682	15,524	63,635	0	-200
Equity financing, net	12,178	19,375	483	8,825	0	0
Other changes in cash	-5,454	-1,249	-210	-4,688	4,752	0
Net cash flows	14,695	14,217	-2,342	294	1,985	5,933
Cash, start of the year	5,273	19,968	34,185	31,843	32,137	34,122
Cash, end of the year	19,968	34,185	31,843	32,137	34,122	40,055
EBITDA/share	-0.03	0.01	-0.03	-0.03	0.04	0.05
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	773.9%
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.	31.9%

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...33	↓	↓	↓	↓
34	28 October 2016	€0.22	Buy	€1.40
35	21 December 2016	€0.22	Buy	€1.20
36	10 March 2017	€0.31	Buy	€1.20
37	Today	€0.32	Buy	€1.40

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BUY: An expected favourable price trend of more than 25% percent.

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SELL: An expected negative price trend of more than -15%.

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- **valuation methods and principles**
- **sensitivity of valuation parameters**

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