

# Pharming Group NV

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

## Q2 results

### RATING

### PRICE TARGET

Return Potential

Risk Rating

### BUY

€ 1.30

182.0%

High

## Q2 HIT BY CURRENCY, DESTOCKING; GROWTH TO PICK UP IN H2

**Q2/17 sales at €15.2m were slightly below the Q1/17 figure of €15.5m and below our forecast of €16.8m.** We had expected higher sequential momentum in Q2/17 despite headwinds from the weakening dollar and client destocking following inventory build in Q1/17. However, sequential sales growth should resume during the second half helped by the recently completed expansion of the US commercialisation team and Ruconest's excellent safety and efficacy characteristics. Nevertheless, we have reduced our full year forecasts to reflect a weaker second quarter than we had expected. We have also lowered our price target from €1.40 to €1.30 but retain our Buy recommendation.

**Q2/17 sales influenced by inventory changes, USD weakness** Pharming's Q2 results showed a 396% increase in sales to €15.2m (Q2/16: €3.1m) while EBIT came in at €0.4m (Q2/16: €-3.0m). The increase in sales was attributable to the acquisition of US marketing rights in December 2016 as well as increasing patient numbers. However, Q2/17 sales were 1.8% below the Q1/17 number of €15.5m while Q2/17 EBIT was well down on Q1/17's €39m. The most important component of Pharming's sales is US Ruconest revenue. At €14.0m in Q2/17 (Q2/16: €2.0m), this number was 3% lower than the Q1/17 figure of €14.5m. Changes in customer inventories and US Dollar weakness influenced US Ruconest sales during the first two quarters. In Q1/17 some specialty pharmacists in the US built inventory of Ruconest as a precautionary replacement after the stock-out of a rival product. This dampened Q2/17 sales in local currency terms which were down ca. 1% at USD15.3m (Q1/17: USD15.5m).

**Q2/17 EU/ROW revenues up 29% on Q1/17** In Europe/Rest of the World, sales climbed from €0.7m in Q1/17 to €0.9m in Q2/17 as Pharming continued to expand its direct commercialisation efforts. However, higher EU/ROW sales were not enough to offset lower US numbers. Group Q2/17 sales were 9.4% below our forecast of €16.8m.

### FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016	2017E	2018E
Revenue (€m)	6.84	21.19	10.83	15.87	64.59	87.34
Y-o-y growth	-35.5%	209.6%	-48.9%	46.6%	306.9%	35.2%
EBIT (€m)	-6.91	2.88	-12.83	-11.54	7.72	19.83
EBIT margin	-101.0%	13.6%	-118.5%	-72.7%	11.9%	22.7%
Net income (€m)	-15.06	-5.77	-9.96	-17.54	-32.77	11.89
EPS (diluted) (€)	-0.07	-0.02	-0.02	-0.04	-0.07	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	2.38	4.63
Net gearing	-302.8%	-109.9%	-67.0%	128.4%	490.6%	235.8%
Liquid assets (€m)	16.97	34.19	31.64	31.89	34.49	38.92

### 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 27 Jul 2017

Closing Price	€ 0.46
Shares outstanding	505.62m
Market Capitalisation	€ 233.09m
52-week Range	€ 0.21 / 0.49
Avg. Volume (12 Months)	6,360,311

Multiples	2016	2017E	2018E
P/E	n.a.	n.a.	18.7
EV/Sales	19.7	4.8	3.6
EV/EBIT	n.a.	40.5	15.8
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Jun 2017

Liquid Assets	€ 25.00m
Current Assets	€ 61.12m
Intangible Assets	€ 55.86m
Total Assets	€ 126.97m
Current Liabilities	€ 34.46m
Shareholders' Equity	€ 6.76m

### SHAREHOLDERS

J.E. Flynn	2.0%
Broadfin Capital Management LLC	1.8%
Kingdon Capital Management LLC	1.7%
Free float and other	94.5%



Pharming's management state that investment in the expansion of the US sales and marketing infrastructure is now complete and this cost item should grow much more slowly in coming quarters.

**Figure 1: Q2/17 results versus our forecasts**

All figures in €m	Q2-17A	Q2-17E	Delta	Q2-16A	Delta
Sales	15.19	16.77	-9.4%	3.06	396.4%
EBIT	0.36	3.62	-90.1%	-3.04	-
margin	2.4%	21.6%	-	neg.	-
Net income	-24.47	-21.00	-	-3.35	-
margin	neg.	neg.	-	neg.	-
EPS (in €)	-0.050	-0.043	-	-0.008	-

Source: First Berlin Equity Research estimates, Pharming Group NV

**Refinancing has removed risk of 24% dilution** The largest single expense item during H1/17 was other financial expense of €33.2m. This related mainly to the refinancing of loans and amortising bonds which Pharming took out last year to complete the acquisition of the US commercialisation rights to Ruconest from Valeant. €17.6m of H1/17 financial expense was cash (of which €16.1m was paid using the proceeds of the new Orbimed loan) and €15.6m was non-cash. The refinance has enabled Pharming to remove the risk of 24% dilution through the conversion of amortising convertible bonds into 115m shares. It will also lower the overall cash costs of the group's debt.

**Takeover of management of distribution by Pharming to improve working cap. control** Operating cashflow before changes in working capital was positive in H1/17 at €6.3m (H1/16 €-6.1m) but a €6m increase in receivables due largely to late payment by US trade debtors meant that net operating cash flow was €-4.3m. Pharming is taking over management of distribution in the current quarter and management expects working capital control to improve.

**Announcement on discussions with FDA re prophylaxis likely end Q3/early Q4** Pharming continues to hold discussions with the FDA with regard to the future development of Ruconest for prophylaxis. At issue is the question of whether a phase III trial of Ruconest will be required or whether another solution can be found such as the inclusion of an efficacy supplement on the BLA. Management has indicated that an announcement on these discussions can be expected at the end of the current quarter/early in Q4.

**Buy recommendation maintained but price target lowered from €1.40 to €1.30** The number of patients using Ruconest continued to increase in Q2/17 and should gain further impetus from the now completed expansion of the US commercialisation team. However, in the light of the Q2 numbers, we have lowered our FY 2017 forecasts as shown in figure 2 below. We maintain our Buy recommendation but lower our price target from €1.40 to €1.30.

**Figure 2: Changes to our forecasts**

All figures in €m	2017E			2018E		
	Old	New	Delta	Old	New	Delta
Sales	68.76	64.59	-6.1%	87.07	87.34	0.3%
EBIT	14.50	7.72	53.2%	19.74	19.83	0.5%
margin	21.1%	11.9%	-	22.7%	22.7%	-
Net income	0.29	-32.77	-	11.80	11.89	0.8%
margin	0.4%	-50.7%	-	13.6%	13.6%	-
EPS (in €)	0.00	-0.07	-	0.03	0.03	0.8%

\* Total sales including other operating income such as milestone payments

**Figure 3: Pipeline valuation**

Compound	Project <sup>1)</sup>	Present Value	Patient Pop	Treatment Cost	Market Size	Market Share	Peak Sales	Gross margin	Discount Factor	Patent Life <sup>2)</sup>	Time to Market
Ruconest (EU)	HAE-AA	€107.5M	4K	€86,957	€304M	20%	€76M	60%	0%	15	-
Ruconest (US)	HAE-AA	€1,202.5M	5K	€130,435	€696M	25%	€362M	90%	10%	12	-
Ruconest (EU)	HAE-PR	€43.8M	1K	€260,870	€239M	20%	€59M	60%	5%	6	3 Years
Ruconest (US)	HAE-PR	€459.0M	2K	€391,304	€609M	25%	€383M	90%	15%	7	3 Years
PV of gross profits		€1,812.7M			€1,848M		€880M				
Costs PV		€930.5M									
NPV		€882.2M									
Net Debt (pro-forma)		-€27.0M									
Fair Value		€855.2M									
Share Count (fully diluted)		639,635K									
Fair value per share		€1.34									

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

**Figure 4: Changes to our pipeline valuation model**

	Old	New	Delta
PV of gross profits	€1,865.0M	€1,812.7M	-2.8%
Costs PV	€949.8M	€930.5M	-2.0%
NPV	€915.2M	€882.2M	-3.6%
Net Cash	-€21.4M	-€27.0M	26.1%
Fair Value	€893.8M	€855.2M	-4.3%
Share Count	629,614K	639,635K	1.6%
Fair value per share	€1.42	€1.34	-5.8%

Source: First Berlin Equity Research estimates



## INCOME STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016A	2017E	2018E
<b>Revenues</b>	<b>6,844</b>	<b>21,186</b>	<b>10,828</b>	<b>15,873</b>	<b>64,585</b>	<b>87,342</b>
Costs of sales	-1,112	-3,427	-4,800	-4,683	-7,463	-9,608
<b>Gross profit</b>	<b>5,732</b>	<b>17,759</b>	<b>6,028</b>	<b>11,190</b>	<b>57,123</b>	<b>77,734</b>
Other income	106	105	147	335	167	0
Research and development	-10,232	-11,663	-14,180	-15,388	-18,454	-22,500
General and administrative	-2,518	-3,324	-3,744	-4,642	-5,278	-5,400
Marketing and sales	0	0	-1,085	-3,035	-25,840	-30,000
<b>Operating income (EBIT)</b>	<b>-6,912</b>	<b>2,877</b>	<b>-12,834</b>	<b>-11,540</b>	<b>7,718</b>	<b>19,834</b>
Net financial income	-8,148	-8,644	2,877	-5,996	-40,484	-7,940
<b>Pre-tax income (EBT)</b>	<b>-15,060</b>	<b>-5,767</b>	<b>-9,957</b>	<b>-17,536</b>	<b>-32,767</b>	<b>11,894</b>
Income taxes	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0
<b>Net income / loss</b>	<b>-15,060</b>	<b>-5,767</b>	<b>-9,957</b>	<b>-17,536</b>	<b>-32,767</b>	<b>11,894</b>
<b>Diluted EPS</b>	<b>-0.07</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.04</b>	<b>-0.07</b>	<b>0.03</b>
<b>EBITDA</b>	<b>-5,992</b>	<b>3,915</b>	<b>-11,871</b>	<b>-10,851</b>	<b>9,256</b>	<b>21,372</b>
<b>Ratios</b>						
Gross margin on revenues	83.8%	83.8%	55.7%	70.5%	88.4%	89.0%
EBITDA margin on revenues	n.m.	18.5%	n.m.	n.m.	14.3%	24.5%
EBIT margin on revenues	n.m.	13.6%	n.m.	n.m.	11.9%	22.7%
Net margin on revenues	n.m.	n.m.	n.m.	n.m.	n.m.	13.6%
<b>Expenses as % of revenues</b>						
Cost of sales	16.2%	16.2%	44.3%	29.5%	11.6%	11.0%
Research and development	149.5%	55.1%	131.0%	96.9%	28.6%	25.8%
General and administrative	36.8%	15.7%	34.6%	29.2%	8.2%	6.2%
Marketing and sales	n.m.	n.m.	10.0%	19.1%	40.0%	34.3%
<b>Y-Y Growth</b>						
Revenues	-35.5%	209.6%	-48.9%	46.6%	306.9%	35.2%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	157.0%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.



## BALANCE SHEET

All figures in EUR '000	2013A	2014A	2015A	2016A	2017E	2018E
<b>Assets</b>						
<b>Current assets, total</b>	<b>24,599</b>	<b>49,143</b>	<b>51,092</b>	<b>62,190</b>	<b>71,951</b>	<b>89,578</b>
Cash and cash equivalents	16,968	34,185	31,643	31,889	34,492	38,920
Receivables	860	1,554	3,220	12,360	15,500	20,962
Inventories	4,763	13,404	16,229	17,941	21,959	29,696
Other current assets	2,008	0	0	0	0	0
<b>Non-current assets, total</b>	<b>6,809</b>	<b>6,575</b>	<b>6,585</b>	<b>64,593</b>	<b>64,625</b>	<b>66,430</b>
Property, plant & equipment	6,228	5,598	5,661	6,043	7,750	9,608
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
<b>Total assets</b>	<b>31,408</b>	<b>55,718</b>	<b>57,677</b>	<b>126,783</b>	<b>136,576</b>	<b>156,008</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>12,925</b>	<b>14,873</b>	<b>13,475</b>	<b>51,378</b>	<b>24,945</b>	<b>32,026</b>
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	7,354	8,973
Trade and other payables	5,812	7,781	7,005	14,054	15,500	20,962
Finance lease liabilities	766	626	263	263	263	263
<b>Longterm liabilities, total</b>	<b>13,473</b>	<b>11,002</b>	<b>20,363</b>	<b>47,938</b>	<b>100,303</b>	<b>102,378</b>
Debt	0	0	11,757	40,395	88,771	88,771
Deferred license fee income	12,222	10,022	7,808	2,270	6,459	8,734
Finance lease liabilities	1,207	965	798	599	399	199
Other liabilities	44	15	0	4,674	4,674	4,674
<b>Minority interests</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders equity</b>	<b>5,010</b>	<b>29,843</b>	<b>23,839</b>	<b>27,467</b>	<b>11,328</b>	<b>21,603</b>
<b>Total consolidated equity and debt</b>	<b>31,408</b>	<b>55,718</b>	<b>57,677</b>	<b>126,783</b>	<b>136,576</b>	<b>156,008</b>
<b>Ratios</b>						
Current ratio (x)	1.90	3.30	3.79	1.21	2.88	2.80
Quick ratio (x)	1.53	2.40	2.59	0.86	2.00	1.87
Net gearing	-302.8%	-109.9%	-67.0%	128.4%	490.6%	235.8%
Book value per share (€)	0.01	0.07	0.06	0.06	0.02	0.05
Net debt	-15,171	-32,794	-15,978	35,256	55,578	50,950
Return on equity (ROE)	n.m.	-33.1%	-37.1%	-68.4%	-168.9%	72.2%



## CASH FLOW STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016A	2017E	2018E
<b>EBIT</b>	<b>-6,912</b>	<b>2,877</b>	<b>-12,834</b>	<b>-11,540</b>	<b>7,718</b>	<b>19,834</b>
Depreciation and amortization	920	1,038	963	756	1,538	1,538
<b>EBITDA</b>	<b>-5,992</b>	<b>3,915</b>	<b>-11,871</b>	<b>-10,784</b>	<b>9,256</b>	<b>21,372</b>
Changes in working capital	-552	-7,474	-5,267	642	99	-5,461
Other adjustments	-1,749	986	-103	138	5,478	-7,940
<b>Operating cash flow</b>	<b>-8,293</b>	<b>-2,573</b>	<b>-17,241</b>	<b>-10,004</b>	<b>5,576</b>	<b>7,970</b>
CAPEX	241	-654	-898	-57,474	-3,193	-3,342
<b>Free cash flow</b>	<b>-8,052</b>	<b>-3,227</b>	<b>-18,139</b>	<b>-67,478</b>	<b>2,384</b>	<b>4,628</b>
<b>Debt financing, net</b>	<b>16,023</b>	<b>-682</b>	<b>15,524</b>	<b>63,635</b>	<b>-313</b>	<b>-200</b>
<b>Equity financing, net</b>	<b>12,178</b>	<b>19,375</b>	<b>483</b>	<b>8,825</b>	<b>284</b>	<b>0</b>
Other changes in cash	-5,454	-1,249	-210	-4,688	0	0
<b>Net cash flows</b>	<b>14,695</b>	<b>14,217</b>	<b>-2,342</b>	<b>294</b>	<b>2,355</b>	<b>4,428</b>
Cash, start of the year	5,273	19,968	34,185	31,843	32,137	34,492
<b>Cash, end of the year</b>	<b>19,968</b>	<b>34,185</b>	<b>31,843</b>	<b>32,137</b>	<b>34,492</b>	<b>38,920</b>
<b>EBITDA/share</b>	<b>-0.03</b>	<b>0.01</b>	<b>-0.03</b>	<b>-0.03</b>	<b>0.02</b>	<b>0.05</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	42.9%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	94.2%
EBITDA/share	n.m.	n.m.	n.m.	n.m.	n.m.	130.9%

**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	21 December 2016	€0.22	Buy	€1.20
35	10 March 2017	€0.31	Buy	€1.20
36	19 May 2017	€0.32	Buy	€1.40
37	Today	€0.46	Buy	€1.30

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First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and the German Ordinance on the Analysis of Financial Instruments [FinAnV] into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

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**PRICE TARGET DATES**

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

**AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY**

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

## ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

### ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

**STRONG BUY:** An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

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

**ADD:** An expected favourable price trend of between 0% and 25%.

**REDUCE:** An expected negative price trend of between 0% and -15%.

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

### RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

## INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

## UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

## SUBJECT TO CHANGE

The opinions contained in the financial analysis reflect the assessment of the author on the day of publication of the financial analysis. The author of the financial analysis reserves the right to change such opinion without prior notification.

### Legally required information regarding

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

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