Pharming Group NV

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

Update

RATING	**BUY**
PRICE TARGET	**€ 1.70**
Return Potential	43.1%
Risk Rating	High

SHARE PRICE STILL HAS A LOT MORE UPSIDE

Several factors have conjoined to produce accelerating sales growth and a jump in the Pharming share price of over 260% since June. First, the sales force built up during H1/17 following the acquisition of full US Ruconest commercialisation rights in late 2016 reached full effectiveness during the third quarter. Second, an article in The Lancet highlighting Ruconest's excellent phase II results in hereditary angioedema (HAE) prophylaxis was published a few weeks before the onset of a shortage of Shire's Cinryze - the market leader in this indication. Then, in September, Pharming announced plans to present an SBLA (Supplemental Biologics License Application) for Ruconest to the FDA for review with a view to expanding the drug's indication in HAE from acute attacks to prophylaxis. The SBLA, which was submitted last week, strengthens our confidence that Ruconest will be approved for HAE prophylaxis without a phase III trial and that first revenues in this indication will be generated in 2019. Q3/17 was a breakthrough quarter for Pharming. Revenue of €26.1m was 69% above Q1/17 and 72% above Q2/17 while EBIT at €8.5m was more than double the H1/17 figure of €4.2m. Management guidance for Q4/17 is for a "significant increase" in revenue relative to Q3/17 due in part to the Cinryze shortage. However, even assuming an end to the Cinryze shortage in 2018, we model 52.9% revenue growth in 2018 vs. 2017 based on Ruconest's newly raised profile on the US market, and its low side effect burden relative to competitors. We have raised our 2018 sales and EBIT forecasts by 52% and 130% respectively on our last study of 14 September and now see fair value for the stock at €1.70 (previously €1.50). We maintain our Buy recommendation.

Cinryze shortage did not impact Q3 sales. It will come in Q4 Q3/17 was a breakthrough quarter for Pharming. Revenue of €26.1m was 69% above Q1/17 and 72% above Q2/17, while EBIT at €8.5m was more than double the H1/17 figure of €4.2m. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016	2017E	2018E
Revenue (€ m)	6.84	21.19	10.83	15.87	86.72	132.64
Y-o-y growth	-35.5%	209.6%	-48.9%	46.6%	446.4%	52.9%
EBIT (€ m)	-6.91	2.88	-12.83	-11.54	22.31	45.54
EBIT margin	-101.0%	13.6%	-118.5%	-72.7%	25.7%	34.3%
Net income (€ m)	-15.06	-5.77	-9.96	-17.54	-30.12	37.60
EPS (diluted) (€)	-0.07	-0.02	-0.02	-0.04	-0.06	0.07
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-8.05	-3.23	-18.14	-67.48	16.89	22.45
Net gearing	-302.8%	-109.9%	-67.0%	128.4%	107.5%	22.7%
Liquid assets (€ m)	16.97	34.19	31.64	31.89	51.28	73.53

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

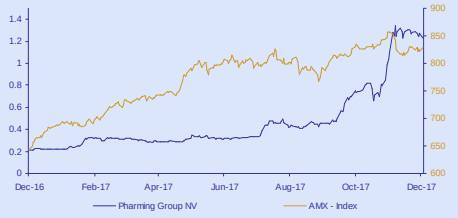
Pharming develops and produces therapeutic proteins through a bioreactor recombinant technology platform. Pharming and Chinese SIPI signed a collaboration agreement in 2013, which will accelerate the addition of new projects to the firm's R&D pipeline. Lead drug Ruconest received EMA approval in 2010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

MARKET DATA

As of 06 Dec 2017	
Closing Price	€ 1.19
Shares outstanding	546.16m
Market Capitalisation	€ 648.84m
52-week Range	€ 0.22 / 1.34
Avg. Volume (12 Months)	16,680,176

Multiples	2016	2017E	2018E
P/E	n.a.	n.a.	17.3
EV/Sales	44.0	8.1	5.3
EV/EBIT	n.a.	31.3	15.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2017	
Liquid Assets	€ 38.39m
Current Assets	€ 73.66m
Intangible Assets	€ 56.74m
Total Assets	€ 139.96m
Current Liabilities	€ 56.13m
Shareholders' Equity	€ 6.21m

SHAREHOLDERS

G.J. Hageman	2.6%
J.E. Flynn	1.8%
Broadfin Capital Management LLC	1.6%
Kingdon Capital Management LLC	1.6%
Free float and other	92.3%

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According to management, the improvement was attributable to the sales force built up during the first six months of this year reaching full effectiveness during the third quarter. Still to come during the final quarter is the impact of the current shortage of rival product Cinryze. This had no real effect on the third quarter as Ruconest was distributed to Cinryze patients free of charge pending their clearance for reimbursement of the Pharming product.

SBLA aimed at expanding Ruconest indication to include prophylaxis Last week Pharming submitted an SBLA (Supplemental Biologics License Application) for Ruconest to the FDA with a view to expanding the drug's indication in HAE from acute attacks to prophylaxis. Ruconest is currently indicated for acute angioedema attacks in adolescent and adult patients with hereditary angioedema. In 2016 the market for treatment of acute HAE attacks was worth ca. USD1bn while the value of the prophylaxis market was USD680m. The submission of the SBLA is based on feedback from interactions between Pharming and the FDA following the publication of phase II trial results of Ruconest for prophylaxis of HAE in November 2016. The news strengthens our confidence that Ruconest will be approved for HAE prophylaxis without a phase III trial and that first revenues in this indication will be generated in 2019.

Return of Cinryze, Lanadelumab not insurmountable obstacles for Ruconest In late October/early November the FDA approved Shire's application to start an in-house source of production for Cinryze. Around the same time, Shire stated that production had restarted in September at its Dutch contract manufacturing organisation, Sanquin. But Shire conceded that supply "could be tight" pending inventory build from in-house production. Our best guess is that the Cinryze shortage will persist into 2018. Another significant imponderable for 2018 is the arrival of Shire's new HAE prophylaxis product, Lanadelumab, on the market. As a monoclonal antibody, Lanadelumab has less harmful side effects than Cinryze, which carries the risk of bloodclots and impurities associated with plasma-derived products. Shire released phase III data for Lanadelumab in May 2017. Efficacy was good but achieved in patients with lower attack frequency than in Pharming's phase II prophylaxis study of Ruconest. We therefore do not see Lanadelumab as an insurmountable obstacle to Ruconest gaining further traction in the US in prophylaxis. Shire has stated that it will submit a Biologics License Application for Lanadelumab to the FDA in late 2017/early 2018.

We maintain our Buy recommendation and raise the price target from €1.50 to €1.70 The current shortage of the leading FDA-approved prophylaxis product, Cinryze, will give Pharming ample opportunity to raise Ruconest's profile for prophylaxis off-label. We continue to model first post-FDA-approval revenues for Ruconest in this indication in 2019. Pharming's Q3/17 results, guidance for Q4/17 and the likelihood of strong 2018 sales growth cause us to raise our sales and EBIT forecasts for next year by 52% and 130% respectively. We now see fair value for the stock at €1.70 (previously €1.50). We maintain our Buy recommendation.

Figure 1: Changes to our forecasts

	2017E			2018E		
All figures in €m	Old	New	Delta	Old	New	Delta
Sales	64.59	86.72	34.3%	87.34	132.64	51.9%
EBIT	7.72	22.31	289.0%	19.83	45.54	129.7%
margin	*12.0%*	*25.7%*	-	*22.7%*	*34.3%*	-
Net income	-32.77	-30.12	-	11.89	37.60	216.2%
margin	*-50.7%*	*-34.7%*	-	*13.6%*	*28.3%*	-
EPS (in €)	-0.07	-0.06	-	0.03	0.07	216.2%

Source: First Berlin Equity Research estimates

Figure 2: Pipeline valuation

Compound	Project[1)]	Present Value	Patient Pop	Treatment Cost	Market Size	Market Share	Peak Sales	Gross margin	Discount Factor	Patent Life2[)]	Time to Market
Ruconest (EU)	HAE-AA	€86.8M	4K	€43,478	€174M	20%	€41M	60%	10%	16	-
Ruconest (US)	HAE-AA	€1,509.7M	4K	€205,950	€783M	25%	€304M	90%	10%	12	-
Ruconest (EU)	HAE-PR	€26.4M	1K	€86,957	€87M	20%	€20M	60%	13%	7	2 Years
Ruconest (US)	HAE-PR	€460.0M	1K	€463,768	€582M	25%	€226M	90%	13%	7	2 Years
PV of gross profits		€2,082.9M			€1,625M		€590M				
Costs PV		€978.0M									
NPV		€1,104.9M									
Net Debt (pro-forma)		€24.7M									
Fair Value		€1,080.1M									
Share Count (fully diluted, PV)		639,173K									
Fair value per share		€1.69									

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 3: Changes to our pipeline valuation model

	Old	New	Delta
PV of gross profits	**€1,868.6M**	**€2,082.9M**	**11.5%**
Costs PV	€865.9M	€978.0M	12.9%
NPV	**€1,002.7M**	**€1,104.9M**	**10.2%**
Net debt	€26.0M	€24.7M	-4.8%
Fair Value	€976.7M	€1,080.1M	10.6%
Share Count (fully diluted, PV)	642,801K	639,175K	-0.6%
Fair value per share	**€1.52**	**€1.69**	**11.2%**

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**	**86,723**	**132,640**
Costs of sales	-1,112	-3,427	-4,800	-4,683	-13,018	-22,600
Gross profit	**5,732**	**17,759**	**6,028**	**11,190**	**73,705**	**110,040**
Other income	106	105	147	335	0	0
Research and development	-10,232	-11,663	-14,180	-15,388	-17,568	-22,500
General and administrative	-2,518	-3,324	-3,744	-4,642	-6,008	-7,200
Marketing and sales	0	0	-1,085	-3,035	-27,815	-34,800
Operating income (EBIT)	**-6,912**	**2,877**	**-12,834**	**-11,540**	**22,314**	**45,540**
Net financial income	-8,148	-8,644	2,877	-5,996	-52,434	-7,940
Pre-tax income (EBT)	**-15,060**	**-5,767**	**-9,957**	**-17,536**	**-30,120**	**37,600**
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**	**-30,120**	**37,600**
Diluted EPS	**-0.07**	**-0.02**	**-0.02**	**-0.04**	**-0.06**	**0.07**
EBITDA	**-5,992**	**3,915**	**-11,871**	**-10,851**	**24,362**	**47,848**
Ratios						
Gross margin on revenues	83.8%	83.8%	55.7%	70.5%	85.0%	83.0%
EBITDA margin on revenues	n.m.	18.5%	n.m.	n.m.	28.1%	36.1%
EBIT margin on revenues	n.m.	13.6%	n.m.	n.m.	25.7%	34.3%
Net margin on revenues	n.m.	n.m.	n.m.	n.m.	n.m.	28.3%
Expenses as % of revenues						
Cost of sales	16.2%	16.2%	44.3%	29.5%	15.0%	17.0%
Research and development	149.5%	55.1%	131.0%	96.9%	20.3%	17.0%
General and administrative	36.8%	15.7%	34.6%	29.2%	6.9%	5.4%
Marketing and sales	n.m.	n.m.	10.0%	19.1%	32.1%	26.2%
Y-Y Growth						
Revenues	-35.5%	209.6%	-48.9%	46.6%	446.4%	52.9%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	104.1%
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
Assets						
Current assets, total	**24,599**	**49,143**	**51,092**	**62,190**	**101,578**	**150,459**
Cash and cash equivalents	16,968	34,185	31,643	31,889	51,279	73,528
Receivables	860	1,554	3,220	12,360	20,814	31,834
Inventories	4,763	13,404	16,229	17,941	29,486	45,098
Other current assets	2,008	0	0	0	0	0
Non-current assets, total	**6,809**	**6,575**	**6,585**	**64,593**	**67,282**	**71,412**
Property, plant & equipment	6,228	5,598	5,661	6,043	10,407	14,590
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**	**168,860**	**221,872**
Shareholders' equity & debt						
Current liabilities, total	**12,925**	**14,873**	**13,475**	**51,378**	**46,259**	**42,898**
Debt	0	0	3,047	26,136	16,885	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	20,814	31,834
Finance lease liabilities	766	626	263	263	263	263
Longterm liabilities, total	**13,473**	**11,002**	**20,363**	**47,938**	**86,516**	**106,908**
Debt	0	0	11,757	40,395	72,771	88,771
Deferred license fee income	12,222	10,022	7,808	2,270	8,672	13,264
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**	**36,085**	**72,066**
Total consolidated equity and debt	**31,408**	**55,718**	**57,677**	**126,783**	**168,860**	**221,872**

Ratios						
Current ratio (x)	1.90	3.30	3.79	1.21	2.20	3.51
Quick ratio (x)	1.53	2.40	2.59	0.86	1.56	2.46
Net gearing	-302.8%	-109.9%	-67.0%	128.4%	107.5%	22.7%
Book value per share (€)	0.01	0.07	0.06	0.06	0.07	0.13
Net debt	-15,171	-32,794	-15,978	35,256	38,791	16,342
Return on equity (ROE)	n.m.	-33.1%	-37.1%	-68.4%	-94.8%	69.5%

CASH FLOW STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016A	2017E	2018E
EBIT	**-6,912**	**2,877**	**-12,834**	**-11,540**	**22,314**	**45,540**
Depreciation and amortization	920	1,038	963	756	2,048	2,308
EBITDA	**-5,992**	**3,915**	**-11,871**	**-10,784**	**24,362**	**47,848**
Changes in working capital	-552	-7,474	-5,267	642	-5,215	-11,020
Other adjustments	-1,749	986	-103	138	4,097	-7,940
Operating cash flow	**-8,293**	**-2,573**	**-17,241**	**-10,004**	**23,244**	**28,888**
CAPEX	241	-654	-898	-57,474	-6,358	-6,438
Free cash flow	**-8,052**	**-3,227**	**-18,139**	**-67,478**	**16,886**	**22,449**
Debt financing, net	**16,023**	**-682**	**15,524**	**63,635**	**-3,854**	**-200**
Equity financing, net	**12,178**	**19,375**	**483**	**8,825**	**6,110**	**0**
Other changes in cash	**-5,454**	**-1,249**	**-210**	**-4,688**	**0**	**0**
Net cash flows	**14,695**	**14,217**	**-2,342**	**294**	**19,142**	**22,249**
Cash, start of the year	5,273	19,968	34,185	31,843	32,137	51,279
Cash, end of the year	**19,968**	**34,185**	**31,843**	**32,137**	**51,279**	**73,528**
EBITDA/share	**-0.03**	**0.01**	**-0.03**	**-0.03**	**0.05**	**0.09**
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	24.3%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	32.9%
EBITDA/share	n.m.	n.m.	n.m.	n.m.	n.m.	80.6%

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...34	↓	↓	↓	↓
35	19 May 2017	€0.32	Buy	€1.40
36	28 July 2017	€0.46	Buy	€1.30
37	14 September 2017	€0.47	Buy	€1.50
38	Today	€1.19	Buy	€1.70

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

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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%.

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

can be accessed through the following internet link: http://firstberlin.com/disclaimer-english-link/

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