

# Pharming Group NV

Netherlands / Biotechnology

Primary exchange: Euronext Amsterdam /

Secondary exchange: Frankfurt

Bloomberg: PHARM NA

ISIN: NL0010391025

## Q1 results

## RATING PRICE TARGET

Return Potential

Risk Rating

## BUY € 1.80

128.3%

High

## WEATHERING COMPETITIVE PRESSURES; MOVING PIPELINE FORWARD

The Q1/19 report showed that Pharming is standing up well to increased competitive pressures. Q1/19 sales up 19.5% at €352m (Q1/18: €29.5m) were close to our forecast but EBIT of €12.2m (Q1/18: €8.2m) was 26% above our estimate because both R&D and G&A expenses were lower than we had modelled. Meanwhile pipeline development is moving ahead on multiple fronts. The start of the phase I/II trial in pre-eclampsia is imminent and H1/20 should see the start of trials of new delivery methods for Ruconest and of rhC1INH with acute kidney injury patients. The start of phase I/II trials in Pompe disease and Fabry disease are scheduled for 2020 and 2021 respectively. We maintain our Buy recommendation and price target of €1.80.

**Fighting off Takhzyro** Q1/19 revenues climbed 19.5% to €35.2m (FBe: €36.2m; Q1/18: €29.5m) while EBIT jumped 49.1% to €12.2m (FBe: €9.7m; Q1/18: €8.2m). The revenue figure was close to our forecast and was again at the €35m+ level established in Q3 last year. However, EBIT beat our projection by 26%. Q1/19 R&D expense at €5.3m (Q1/18: €5.7m) was less than half the Q4/18 figure of €11.3m which was swollen by preparations for the pre-eclampsia and acute kidney injury trials as well as for the production of α-glucosidase for Pompe disease. Meanwhile, Q1/19 G&A expense of €3.0m (Q1/18: €2.5m) was below both the Q3/18 and Q4/18 figures of €3.1m and €3.9 respectively. Indirect competitive pressures in the prophylactic setting have increased from Haegarda (CSL Behring) and Takhzyro (Takeda), while in the acute setting one or more generic versions of Firazyr (Takeda) are likely to become available from end-2019. However, Ruconest's superior efficacy vs. Firazyr as demonstrated by the results of a head-to-head trial in December, the lower cost of treatment using Ruconest vs. Haegarda and Takhzyro, and the rapidly expanding market for treatment of breakthrough attacks suffered by prophylaxis patients, all suggest that Ruconest sales will continue to grow. (p.t.o.)

## FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018	2019E	2020E
Revenue (€m)	10.83	15.87	89.62	135.13	158.00	184.20
Y-o-y growth	-48.9%	46.6%	464.6%	50.8%	16.9%	16.6%
EBIT (€m)	-12.83	-11.54	21.91	37.99	48.74	61.49
EBIT margin	-118.5%	-72.7%	24.4%	28.1%	30.8%	33.4%
Net income (€m)	-9.96	-17.54	-76.25	24.99	23.34	44.43
EPS (diluted) (€)	-0.02	-0.04	-0.15	0.04	0.04	0.07
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-18.14	-67.48	32.17	36.61	22.37	10.05
Net gearing	-67.0%	128.4%	137.9%	-13.9%	-26.3%	-21.6%
Liquid assets (€m)	31.64	31.89	58.66	80.31	66.30	42.07

## 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. Lead drug Ruconest received EMA approval in 2010 and FDA approval in July 2014.

## MARKET DATA

As of 20 May 2019

Closing Price	€ 0.79
Shares outstanding	622.00m
Market Capitalisation	€ 490.39m
52-week Range	€ 0.68 / 1.57
Avg. Volume (12 Months)	13,234,158

Multiples	2018	2019E	2020E
P/E	19.3	21.0	11.1
EV/Sales	3.7	3.2	2.7
EV/EBIT	13.1	10.2	8.1
Div. Yield	0.0%	0.0%	0.0%

## STOCK OVERVIEW



## COMPANY DATA

As of 31 Mar 2019

Liquid Assets	€ 65.26m
Current Assets	€ 101.69m
Intangible Assets	€ 52.06m
Total Assets	€ 199.56m
Current Liabilities	€ 62.27m
Shareholders' Equity	€ 69.07m

## SHAREHOLDERS

FMR LLC	3.1%
Polar Capital Partners Ltd.	3.0%
Goldman Sachs Group Inc.	3.0%
Hagemann G.J.	2.3%
Free float and other	88.6%



During the Takeda Q4 18/19 earnings conference call last Tuesday, management confirmed the impression given by the company's numbers that the newly launched Takhzyro is cannibalising sales of Cinryze and Firazyr. Meanwhile Pharming's numbers showed no clearly discernible impact from Takhzyro.

**Figure 1: Q1/19 results versus our forecasts**

All figures in €m	Q1 19	Q1 19E	Delta	Q1 18A	Delta
Sales	35.22	36.20	-2.7%	29.48	19.5%
EBIT	12.24	9.70	26.2%	8.21	49.1%
margin	34.8%	26.8%	-	27.8%	-
Net income	6.74	3.80	77.3%	5.49	22.8%
margin	19.1%	10.5%	-	neg.	-
EPS (in €)	0.011	0.006	77.3%	0.009	22.2%

Source: First Berlin Equity Research estimates, Pharming Group NV

Figure 2 below shows our assumptions regarding pipeline newsflow. Since our most recent study of 12 March we have moved the timing of the start of the clinical studies of new delivery methods for Ruconest (intramuscular, subcutaneous, intradermal) from H1/19 into H1/20. The delay relates to constraints on the supply of Ruconest required for the clinical studies. Currently all available production capacity is required for patients. Pharming's management expects clearance for the start of production at a new Ruconest production facility from the European and U.S. authorities in Q3/19 and 2020 respectively. This will help support future growth.

**Figure 2: Expected pipeline newsflow**

H1 19	Phase I/II trial in pre-eclampsia expected to start "any day now" following final approval from relevant ethics committees
H1 19	IMPD filing in acute kidney injury
H2 19	Start phase II trial in acute kidney injury
H1 20	Start clinical studies of new delivery methods
H1 20	IND filing in Pompe disease
Q2 20	Readout on phase I/II trial in pre-eclampsia
H2 20	Start phase I/II trial in Pompe disease
2020	Readout on acute kidney injury phase II trial
H1 21	Start phase I/II trial in Fabry disease
2021	Readout on investigator-initiated study in delayed graft function

Source: Pharming Group NV

Meanwhile, we gather from talking to management that the time required to produce sufficient stocks of  $\alpha$ -glucosidase to begin the phase I/II trial in Pompe disease means that this trial is likely to start towards the end rather than at the beginning of H1/20. The phase I/II trial in pre-eclampsia, on the other hand, is expected to start "any day now" following approval from the relevant ethics committees.

**Buy recommendation maintained at unchanged price target of €1.80** Although Q1/19 EBIT was above our forecast, for the time being we are leaving our forecasts for the full year 2019 and subsequent years unchanged. We maintain our Buy recommendation and price target of €1.80.

**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	€115.2M	4K	€ 43,478	€174M	20%	€40M	60%	10%	16	-
Ruconest (US)	HAE-AA	€1,242.6M	4K	€ 225,330	€901M	20%	€264M	87%	10%	12	-
Ruconest (EU)	HAE-PR	€10.1M	1K	€ 86,957	€87M	10%	€8M	60%	12%	4	3 years
Ruconest (US)	HAE-PR	€346.4M	2K	€ 463,768	€723M	15%	€160M	8%	12%	5	2 years
rhGLU (EU+US)	Pompe	€479.9M	3K	€ 260,870	€826M	30%	€718M	85%	2%	18	4 years
PV of gross profits		€2,194.3M			€2,712M		€1,189M				
Costs PV		€982.8M									
PV after costs		€1,211.5M									
Contingent consideration		€49.5M									
Net cash (pro-forma)		€17.5M									
Fair Value		€1,179.5M									
Share Count (fully diluted, PV)		657,323K									
Fair value per share		€ 1.80									

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 in years after point of approval

Source: First Berlin Equity Research estimates



## INCOME STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E
<b>Revenues</b>	<b>10,828</b>	<b>15,873</b>	<b>89,620</b>	<b>135,130</b>	<b>158,000</b>	<b>184,200</b>
Costs of sales	-4,800	-4,683	-12,445	-22,180	-26,860	-31,314
<b>Gross profit</b>	<b>6,028</b>	<b>11,190</b>	<b>77,175</b>	<b>112,950</b>	<b>131,140</b>	<b>152,886</b>
Other income	147	335	790	684	600	600
Research and development	-14,180	-15,388	-18,657	-28,882	-33,000	-37,000
General and administrative	-3,744	-4,642	-5,974	-12,221	-14,000	-15,000
Marketing and sales	-1,085	-3,035	-31,422	-34,539	-36,000	-40,000
<b>Operating income (EBIT)</b>	<b>-12,834</b>	<b>-11,540</b>	<b>21,912</b>	<b>37,992</b>	<b>48,740</b>	<b>61,486</b>
Net financial result	2,877	-5,996	-107,601	-37,135	-16,558	-4,523
<b>Pre-tax income (EBT)</b>	<b>-9,957</b>	<b>-17,536</b>	<b>-85,689</b>	<b>857</b>	<b>32,182</b>	<b>56,963</b>
Income taxes	0	0	9,442	24,136	-8,844	-12,532
Minority interests	0	0	0	0	0	0
<b>Net income / loss</b>	<b>-9,957</b>	<b>-17,536</b>	<b>-76,247</b>	<b>24,993</b>	<b>23,338</b>	<b>44,431</b>
<b>Diluted EPS</b>	<b>-0.02</b>	<b>-0.04</b>	<b>-0.15</b>	<b>0.04</b>	<b>0.04</b>	<b>0.07</b>
<b>EBITDA</b>	<b>-11,871</b>	<b>-10,784</b>	<b>25,327</b>	<b>40,342</b>	<b>52,590</b>	<b>65,336</b>
<b>Ratios</b>						
Gross margin on revenues	55.7%	70.5%	86.1%	83.6%	83.0%	83.0%
EBITDA margin on revenues	n.m.	n.m.	28.3%	29.9%	33.3%	35.5%
EBIT margin on revenues	n.m.	n.m.	24.4%	28.1%	30.8%	33.4%
Net margin on revenues	n.m.	n.m.	n.m.	18.5%	14.8%	24.1%
<b>Expenses as % of revenues</b>						
Cost of sales	44.3%	29.5%	13.9%	16.4%	17.0%	17.0%
Research and development	131.0%	96.9%	20.8%	21.4%	20.9%	20.1%
General and administrative	34.6%	29.2%	6.7%	9.0%	8.9%	8.1%
Marketing and sales	10.0%	19.1%	35.1%	25.6%	22.8%	21.7%
<b>Y-Y Growth</b>						
Revenues	-48.9%	46.6%	464.6%	50.8%	16.9%	16.6%
Operating income	n.m.	n.m.	n.m.	73.4%	28.3%	26.2%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	-6.6%	90.4%



## BALANCE SHEET

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E
<b>Assets</b>						
<b>Current assets, total</b>	<b>51,092</b>	<b>62,190</b>	<b>88,251</b>	<b>115,440</b>	<b>107,376</b>	<b>89,960</b>
Cash and cash equivalents	31,643	31,889	58,657	80,311	66,302	42,074
Receivables	3,220	12,360	11,260	17,814	20,829	24,283
Inventories	16,229	17,941	18,334	17,315	20,245	23,603
Other current assets	0	0	0	0	0	0
<b>Non-current assets, total</b>	<b>6,585</b>	<b>64,593</b>	<b>77,939</b>	<b>99,129</b>	<b>98,321</b>	<b>96,194</b>
Property, plant & equipment	5,661	6,043	8,234	8,402	9,480	9,210
Long term prepayments	0	1,622	2,296	2,006	2,370	2,763
Deferred tax assets	0	0	9,442	35,082	35,082	35,082
Goodwill & other intangibles	724	56,680	56,631	52,435	50,185	47,935
Restricted cash	200	248	1,336	1,204	1,204	1,204
<b>Total assets</b>	<b>57,677</b>	<b>126,783</b>	<b>166,190</b>	<b>214,569</b>	<b>205,697</b>	<b>186,154</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>13,475</b>	<b>51,378</b>	<b>60,743</b>	<b>82,599</b>	<b>104,657</b>	<b>55,463</b>
Debt	3,047	26,136	22,398	35,235	29,750	14,911
Contract liabilities	2,207	943	804	800	935	1,091
Derivative financial liabilities	953	9,982	10,080	228	228	228
Trade and other payables	7,005	14,054	27,198	28,589	33,428	38,971
Finance lease liabilities	263	263	263	263	263	263
Other financial liabilities	0	0	0	17,484	40,053	0
<b>Longterm liabilities, total</b>	<b>20,363</b>	<b>47,938</b>	<b>89,337</b>	<b>70,219</b>	<b>15,952</b>	<b>1,172</b>
Debt	11,757	40,395	59,161	37,267	14,911	0
Deferred tax liabilities	0	0	0	87	87	87
Contract liabilities	7,808	2,270	1,467	667	790	921
Finance lease liabilities	798	599	390	164	164	164
Other financial liabilities	0	4,674	28,319	32,034	0	0
<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>23,839</b>	<b>27,467</b>	<b>16,110</b>	<b>61,751</b>	<b>85,089</b>	<b>129,520</b>
<b>Total consolidated equity and debt</b>	<b>57,677</b>	<b>126,783</b>	<b>166,190</b>	<b>214,569</b>	<b>205,697</b>	<b>186,154</b>
<b>Ratios</b>						
Current ratio (x)	3.79	1.21	1.45	1.40	1.03	1.62
Quick ratio (x)	2.59	0.86	1.15	1.19	0.83	1.20
Net gearing	-67.0%	128.4%	137.9%	-13.9%	-26.3%	-21.6%
Book value per share (€)	0.06	0.06	0.03	0.10	0.14	0.21
Net debt	-15,978	35,256	22,219	-8,586	-22,418	-27,941
Return on equity (ROE)	-37.1%	-68.4%	-349.9%	64.2%	31.8%	41.4%



## CASH FLOW STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E
<b>EBIT</b>	<b>-12,834</b>	<b>-11,540</b>	<b>21,912</b>	<b>37,992</b>	<b>48,740</b>	<b>61,486</b>
Depreciation and amortization	963	756	3,415	6,559	3,850	3,850
<b>EBITDA</b>	<b>-11,871</b>	<b>-10,784</b>	<b>25,327</b>	<b>44,551</b>	<b>52,590</b>	<b>65,336</b>
Changes in working capital	-5,267	642	11,099	-4,144	-1,212	-1,375
Interest income, taxes paid, other	-103	138	1,787	-31	-8,844	-12,532
Milestone payments	0	0	0	0	-17,484	-40,053
<b>Operating cash flow</b>	<b>-17,241</b>	<b>-10,004</b>	<b>38,213</b>	<b>40,376</b>	<b>25,049</b>	<b>11,376</b>
CAPEX	-898	-57,474	-6,045	-3,769	-2,678	-1,330
<b>Free cash flow</b>	<b>-18,139</b>	<b>-67,478</b>	<b>32,168</b>	<b>36,607</b>	<b>22,371</b>	<b>10,046</b>
<b>Debt financing, net</b>	<b>15,524</b>	<b>63,635</b>	<b>-10,088</b>	<b>-28,457</b>	<b>-36,381</b>	<b>-34,273</b>
<b>Equity financing, net</b>	<b>483</b>	<b>8,825</b>	<b>6,833</b>	<b>10,496</b>	<b>0</b>	<b>0</b>
Other changes in cash	-410	-4,736	-1,057	3,008	0	0
<b>Net cash flows</b>	<b>-2,542</b>	<b>246</b>	<b>27,856</b>	<b>21,654</b>	<b>-14,009</b>	<b>-24,227</b>
Cash, start of the year	34,185	31,643	31,889	58,657	80,311	66,302
<b>Cash, end of the year</b>	<b>31,643</b>	<b>31,889</b>	<b>58,657</b>	<b>80,311</b>	<b>66,302</b>	<b>42,074</b>
<b>EBITDA/share</b>	<b>-0.03</b>	<b>-0.03</b>	<b>0.05</b>	<b>0.07</b>	<b>0.08</b>	<b>0.11</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.m.	n.m.	n.m.	5.7%	-38.0%	-54.6%
Free cash flow	n.m.	n.m.	n.m.	13.8%	-38.9%	-55.1%
EBITDA/share	n.m.	n.m.	n.m.	45.2%	15.9%	24.2%

**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...41	↓	↓	↓	↓
42	30 October 2018	€0.95	Buy	€2.00
43	12 December 2018	€0.79	Buy	€2.00
44	12 March 2019	€0.80	Buy	€1.80
45	Today	€0.79	Buy	€1.80

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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:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy <sup>1</sup>	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

<sup>1</sup> The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

### 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

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