

Pharming Group NV

Netherlands / Biotechnology

Primary exchange: Euronext Amsterdam /

Secondary exchange: Frankfurt

Bloomberg: PHARM NA

ISIN: NL0010391025

Q3 2019 results

RATING PRICE TARGET

Return Potential

Risk Rating

BUY € 1.90

52.2%

High

Q3/19 EBIT MARGIN REACHES RECORD HIGH OF 39.7%

Following very strong Q2/19 results (sales up 21.3% on Q1/19), Q3/19 results provided further evidence (sales and EBIT up 6.4% and 45.7% respectively vs. Q2/19) that Pharming is able to thrive in the face of what management itself describes as “intense competition” from rivals such as Takeda and CSL Behring. The Q3/19 EBIT margin of 39.7% is a new record for Pharming. Meanwhile, the news that CSL Behring has voluntarily dismissed charges against Pharming with respect to the “Chiao Affair” is very welcome. As we stated at the Q2/19 stage, we expect evidence that Ruconest growth in HAE can be relied upon will refocus investor attention on Pharming’s pipeline which includes multiple products each with sales potential of over USD1bn. We have revised up our EBIT forecast for FY2019 to reflect stronger than expected Q3/19 profitability but leave our projections for subsequent years largely unchanged. We maintain our Buy recommendation at an unchanged price target of €1.90.

Q3/19 EBIT margin hits record 39.7% as op. costs come in at lower end of recent range Q3/19 sales climbed 17.0% y-o-y to €45.4m (FBe: €45.0m; Q3/18: €38.8m) and were close to our and market expectations. But EBIT of €18.1m (FBe: €12.8m; Q3/18: €14.7m) was 41.3% above our forecast and 46.7% above the consensus estimate of €12.5m. The Q3/19 EBIT margin was helped by an increase in the gross margin compared with Q2/19 (88.3% vs. 87.0%) due to the strength of the US Dollar and a shift in the sales mix towards the US as sales in Europe and the rest of the world fell. However, the main positive influence on Q3/19 operating profitability was reduced operating costs. Quarterly operating costs as a percentage of sales are volatile at Pharming. Since the beginning of 2018 this figure has ranged between 46.1% and 64.4%. The Q2/19 figure was 57.7% but in Q3/19 it fell to 48.9%. Company guidance for Q4/19 is for sales “in the same range as Q3/19”. Management also tells us that Q4/19 operating costs are likely to come in at a similar level to Q3/19. We leave our full year sales forecast unchanged at €170.9m which implies Q4/19 sales of €47.6m (4.7% above the Q3/19 figure).

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018	2019E	2020E
Revenue (€m)	10.83	15.87	89.62	135.13	170.94	212.00
Y-o-y growth	-48.9%	46.6%	464.6%	50.8%	26.5%	24.0%
EBIT (€m)	-12.83	-11.54	21.91	37.99	59.55	67.99
EBIT margin	-118.5%	-72.7%	24.4%	28.1%	34.8%	32.1%
Net income (€m)	-9.96	-17.54	-76.25	24.99	28.67	50.13
EPS (diluted) (€)	-0.02	-0.04	-0.15	0.04	0.05	0.08
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-18.14	-67.48	32.17	36.61	7.70	21.02
Net gearing	-67.0%	128.4%	137.9%	-13.9%	-4.2%	-15.0%
Liquid assets (€m)	31.64	31.89	58.66	80.31	47.66	35.21

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 28 Oct 2019

Closing Price	€ 1.25
Shares outstanding	626.80m
Market Capitalisation	€ 782.56m
52-week Range	€ 0.68 / 1.32
Avg. Volume (12 Months)	9,198,906

Multiples	2018	2019E	2020E
P/E	30.5	27.1	15.5
EV/Sales	5.8	4.6	3.7
EV/EBIT	20.6	13.1	11.5
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2019

Liquid Assets	€ 62.97m
Current Assets	€ 101.79m
Intangible Assets	€ 67.81m
Total Assets	€ 220.81m
Current Liabilities	€ 90.10m
Shareholders' Equity	€ 90.48m

SHAREHOLDERS

FMR LLC	2.9%
Polar Capital Partners Ltd.	2.9%
Goldman Sachs Group Inc.	2.9%
Deutsche Bank	2.7%
Free float and other	88.6%

**Figure 1: Q3/19 results versus our forecasts**

All figures in €m	Q3 19A	Q3 19E	Delta	Q3 18A	Delta
Sales	45.42	45.00	0.9%	38.83	17.0%
EBIT	18.05	12.78	41.3%	14.73	22.6%
margin	39.7%	28.4%	-	37.9%	-
Net income	10.46	7.20	45.3%	5.36	95.2%
margin	23.0%	16.0%	-	neg.	-
EPS in € (fully diluted)	0.016	0.011	45.3%	0.008	100.0%

Source: First Berlin Equity Research estimates, Pharming Group NV

We further assume a Q4/19 gross margin of 88.0% and operating costs at 52.8% of sales. On these assumptions our new 2019 EBIT forecast is €59.6m (14.9% above our previous number of €51.8m). Our forecasts for 2020 and subsequent years are largely unchanged. We expect the gross margin to come down from a forecast 87.1% in 2019 to 86.0% in 2018 as sales growth in Europe and the rest of the world resumes following EMA approval of Pharming's new production facility.

€2.5m charge reflects increasing probability of milestone payments to Bausch At the time of the acquisition of the North American commercialisation rights to Ruconest from Valeant (now Bausch Health) at the end of 2016, Pharming committed to future payments of up to USD65m based on the achievement of sales milestones. The first milestone of USD20m was paid in March of this year. In the Q3/19 accounts, Pharming took a charge of €2.5m under other financial expenses on its P&L, raising the total liability on its balance sheet with respect to Bausch to €34.5m (USD37.6m), of which €16.2m (USD17.6m) is a current liability. The €2.5m charge was the main reason why Q3/19 net profit was only €3.2m above our forecast while Q3/19 EBIT was €5.3m above our projection.

Leniolisib deal may be followed by further similar deals In August Pharming acquired from Novartis an exclusive license to leniolisib (CDZ173) for the treatment of APDS (Activated Phosphoinositide 3-kinase Delta Syndrome). The upfront payment was €17.9m (USD20m). APDS is an ultra-rare disease with an estimated worldwide incidence of 1-2 per million for which there are currently no approved treatments. Leniolisib is currently the subject of a pivotal phase II/III trial sponsored by Novartis. Pharming is cooperating with Novartis to complete enrolment of the phase II/III trial and it will commercialise the product if it gains approval. The estimated completion date of the phase II/III trial is July 2020. Subject to approval, Pharming expect the drug to reach the market in H2/2021 or H1/2022. Management has announced that Pharming will conclude further similar deals if suitable opportunities present themselves.

Figure 2 below shows expected pipeline newsflow. The only change we have made since our last report of 29 July is to incorporate the dates for the expected completion of the leniolisib phase II/III trial and its subsequent launch.

Figure 2: Expected pipeline newsflow

Period	Event
H2 19	Start phase II trial in acute kidney injury
Q2 20	Pre-eclampsia phase I/II trial safety component read-out
H2 20	Completion of leniolisib phase II/III trial
Q4 20	IND filing in Pompe disease
Q4 20/Q1 21	Full read-out on phase I/II trial in pre-eclampsia
Q1 21	Start clinical studies of new delivery methods
H1 21	Start phase I/II trial in Pompe disease
Mid-2021	Read-out on acute kidney injury phase II trial
2021	Read-out on investigator-initiated study in delayed graft function
H2 21 or H1 22	Launch of leniolisib subject to market approval
H1 22	Start phase I/II trial in Fabry disease

Source: Pharming Group NV

**Figure 3: Changes to our forecasts**

All figures in €m	2019E			2020E		
	Old	New	Delta	Old	New	Delta
Sales	170.94	170.94	0.0%	212.00	212.00	0.0%
EBIT	51.81	59.55	14.9%	68.07	67.99	-0.1%
margin	30.3%	34.8%	-	32.1%	32.1%	-
Net income	25.73	28.67	11.4%	49.57	50.13	1.1%
margin	15.1%	16.8%	-	23.4%	23.6%	-
EPS in € (fully diluted)	0.04	0.05	11.4%	0.08	0.08	1.1%

* Total sales including other operating income such as milestone payments

Source: First Berlin Equity Research estimates

We have adjusted up our forecasts for 2019 but our forecasts for 2020 and subsequent years are largely unchanged. Our price target remains at €1.90.

Figure 4: 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	€22.4M	4K	€ 43,478	€174M	20%	€7M	60%	10%	16	-
Ruconest (US)	HAE-AA	€1,543.3M	4K	€ 225,330	€901M	20%	€336M	87%	10%	12	-
Ruconest (EU)	HAE-PR	€4.1M	1K	€ 86,957	€87M	10%	€8M	60%	12%	4	5 years
Ruconest (US)	HAE-PR	€276.8M	2K	€ 463,768	€723M	15%	€160M	8%	12%	5	4 years
rhoGLU (EU+US)	Pompe	€479.9M	3K	€ 260,870	€826M	30%	€718M	85%	2%	18	4 years
PV of gross profits		€2,326.5M			€2,712M		€1,229M				
Costs PV		€1,022.4M									
PV after costs		€1,304.1M									
Contingent consideration		€34.5M									
Net cash (pro-forma)		€8.4M									
Fair Value		€1,278.0M									
Share Count (fully diluted, PV)		677,266K									
Fair value per share		€ 1.90									

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
Revenues	10,828	15,873	89,620	135,130	170,935	212,000
Costs of sales	-4,800	-4,683	-12,445	-22,180	-21,987	-29,756
Gross profit	6,028	11,190	77,175	112,950	148,948	182,244
Other income	147	335	790	684	392	600
Research and development	-14,180	-15,388	-18,657	-28,882	-34,226	-47,000
General and administrative	-3,744	-4,642	-5,974	-12,221	-14,880	-16,850
Marketing and sales	-1,085	-3,035	-31,422	-34,539	-40,682	-51,000
Operating income (EBIT)	-12,834	-11,540	21,912	37,992	59,552	67,994
Net financial result	2,877	-5,996	-107,601	-37,135	-20,528	-3,723
Pre-tax income (EBT)	-9,957	-17,536	-85,689	857	39,024	64,271
Income taxes	0	0	9,442	24,136	-10,349	-14,140
Minority interests	0	0	0	0	0	0
Net income / loss	-9,957	-17,536	-76,247	24,993	28,674	50,131
Diluted EPS	-0.02	-0.04	-0.15	0.04	0.05	0.08
EBITDA	-11,871	-10,784	25,327	40,342	63,402	71,844
Ratios						
Gross margin on revenues	55.7%	70.5%	86.1%	83.6%	87.1%	86.0%
EBITDA margin on revenues	n.m.	n.m.	28.3%	29.9%	37.1%	33.9%
EBIT margin on revenues	n.m.	n.m.	24.4%	28.1%	34.8%	32.1%
Net margin on revenues	n.m.	n.m.	n.m.	18.5%	16.8%	23.6%
Expenses as % of revenues						
Cost of sales	44.3%	29.5%	13.9%	16.4%	12.9%	14.0%
Research and development	131.0%	96.9%	20.8%	21.4%	20.0%	22.2%
General and administrative	34.6%	29.2%	6.7%	9.0%	8.7%	7.9%
Marketing and sales	10.0%	19.1%	35.1%	25.6%	23.8%	24.1%
Y-Y Growth						
Revenues	-48.9%	46.6%	464.6%	50.8%	26.5%	24.0%
Operating income	n.m.	n.m.	n.m.	73.4%	56.7%	14.2%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	14.7%	74.8%



BALANCE SHEET

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E
Assets						
Current assets, total	51,092	62,190	88,251	115,440	102,777	83,097
Cash and cash equivalents	31,643	31,889	58,657	80,311	47,665	35,212
Receivables	3,220	12,360	11,260	17,814	27,948	24,283
Inventories	16,229	17,941	18,334	17,315	27,165	23,603
Other current assets	0	0	0	0	0	0
Non-current assets, total	6,585	64,593	77,939	99,129	120,271	114,094
Property, plant & equipment	5,661	6,043	8,234	8,402	12,720	9,210
Long term prepayments	0	1,622	2,296	2,006	3,180	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	68,085	65,835
Restricted cash	200	248	1,336	1,204	1,204	1,204
Total assets	57,677	126,783	166,190	214,569	223,048	197,191
Shareholders' equity & debt						
Current liabilities, total	13,475	51,378	60,743	82,599	116,401	55,463
Debt	3,047	26,136	22,398	35,235	29,750	14,911
Contract liabilities	2,207	943	804	800	1,255	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	44,852	38,971
Finance lease liabilities	263	263	263	263	263	263
Other financial liabilities	0	0	0	17,484	40,053	0
Longterm liabilities, total	20,363	47,938	89,337	70,219	16,222	1,172
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	1,060	921
Finance lease liabilities	798	599	390	164	164	164
Other financial liabilities	0	4,674	28,319	32,034	0	0
Minority interests	0	0	0	0	0	0
Shareholders' equity	23,839	27,467	16,110	61,751	90,425	140,557
Total consolidated equity and debt	57,677	126,783	166,190	214,569	223,048	197,191
Ratios						
Current ratio (x)	3.79	1.21	1.45	1.40	0.88	1.50
Quick ratio (x)	2.59	0.86	1.15	1.19	0.65	1.07
Net gearing	-67.0%	128.4%	137.9%	-13.9%	-4.2%	-15.0%
Book value per share (€)	0.06	0.06	0.03	0.10	0.15	0.23
Net debt	-15,978	35,256	22,219	-8,586	-3,781	-21,078
Return on equity (ROE)	-37.1%	-68.4%	-349.9%	64.2%	37.7%	43.4%



CASH FLOW STATEMENT

All figures in EUR '000	2015A	2016A	2017A	2018A	2019E	2020E
EBIT	-12,834	-11,540	21,912	37,992	59,552	67,994
Depreciation and amortization	963	756	3,415	6,559	3,850	3,850
EBITDA	-11,871	-10,784	25,327	44,551	63,402	71,844
Changes in working capital	-5,267	642	11,099	-4,144	-4,046	1,459
Interest income, taxes paid, other	-103	138	1,787	-31	-10,349	-14,140
Milestone payments	0	0	0	0	-17,484	-40,053
Operating cash flow	-17,241	-10,004	38,213	40,376	31,522	19,110
CAPEX	-898	-57,474	-6,045	-3,769	-23,818	1,910
Free cash flow	-18,139	-67,478	32,168	36,607	7,704	21,020
Debt financing, net	15,524	63,635	-10,088	-28,457	-40,350	-33,473
Equity financing, net	483	8,825	6,833	10,496	0	0
Other changes in cash	-410	-4,736	-1,057	3,008	0	0
Net cash flows	-2,542	246	27,856	21,654	-32,646	-12,453
Cash, start of the year	34,185	31,643	31,889	58,657	80,311	47,665
Cash, end of the year	31,643	31,889	58,657	80,311	47,665	35,212
EBITDA/share	-0.03	-0.03	0.05	0.07	0.10	0.12
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	5.7%	-21.9%	-39.4%
Free cash flow	n.m.	n.m.	n.m.	13.8%	-79.0%	172.8%
EBITDA/share	n.m.	n.m.	n.m.	45.2%	39.7%	13.3%

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...43	↓	↓	↓	↓
44	12 March 2019	€0.80	Buy	€1.80
45	21 May 2019	€0.79	Buy	€1.80
46	29 July 2019	€0.94	Buy	€1.90
47	Today	€1.25	Buy	€1.90

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PRICE TARGET DATES

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

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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 ¹	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%

¹ 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.

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Legally required information regarding

- 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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