

Pharming Group NV

Netherlands / Biotechnology

Primary exchange: Euronext Amsterdam /

Secondary exchange: Frankfurt

Bloomberg: PHARM NA

ISIN: NL0010391025

**€125m convertible
bond issue**
RATING
PRICE TARGET

Return Potential

Risk Rating

BUY
€ 2.00

35.3%

High

CONVERTIBLE ACCELERATES GROWTH, LOWERS COSTS

Pharming is to use the proceeds of its €125m convertible bond issue to repay existing more expensive debt, expand its production capacity and strengthen its marketing effort. New acquisitions/in-licensing agreements along the lines of last August's Leniolisib deal are also possible, and if successful will give the sales force additional product to market besides Ruconest. Repayment of the USD56m (€50m) loan outstanding to Orbimed lowers the interest rate on this debt from 12-13% to 3% and reflects the progress made by Pharming since the Orbimed loan was taken out in Q2/17. Meanwhile, dilution from the equity component of the convertible does not kick in until the share price reaches €2.00 which is the same level as our price target. We have adjusted our forecasts upward to take account of the recent acquisition of marketing rights to additional countries previously held by Sobi (Swedish Orphan Biovitrum AB) and also the likely improvement in profitability stemming from the addition of new lower cost manufacturing capacity. We now see fair value for the Pharming share at €2.00 (previously: €1.90). We maintain our Buy recommendation.

€125m convertible bond issue Pharming has issued a €125m 3.0% coupon bond convertible into its shares at €2.00. The bonds will mature on 21 January 2025. The issue will consist of 1,250 bonds with a par value of €100,000 each, so each bond will convert into 50,000 shares. Pharming will have the option to redeem all (not some) of the outstanding bonds at par plus accrued interest a) if on or after 13 February 2023 the share price exceeds parity value (calculated by dividing the market price of the bond by 50,000) by 130%. b) if, at any time, 85% or more of the aggregate principal amount of the bonds originally issued shall have been previously converted and/or repurchased and cancelled.

Over 75% reduction in financing cost The proceeds of the issue will allow Pharming to repay the USD56m (€50m) loan outstanding with Orbimed and expand its production and marketing capabilities. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019E	2020E	2021E
Revenue (€m)	15.87	89.62	135.13	170.94	216.20	243.27
Y-o-y growth	46.6%	464.6%	50.8%	26.5%	26.5%	12.5%
EBIT (€m)	-11.54	21.91	37.99	59.55	69.25	79.68
EBIT margin	-72.7%	24.4%	28.1%	34.8%	32.0%	32.8%
Net income (€m)	-17.54	-76.25	24.99	28.67	50.89	59.06
EPS (diluted) (€)	-0.04	-0.15	0.04	0.05	0.08	0.10
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-67.48	32.17	36.61	-3.12	-6.65	47.80
Net gearing	128.4%	137.9%	-13.9%	-4.8%	1.7%	-22.6%
Liquid assets (€m)	31.89	58.66	80.31	59.21	128.14	176.27

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 15 Jan 2020

Closing Price	€ 1.48
Shares outstanding	631.30m
Market Capitalisation	€ 933.06m
52-week Range	€ 0.72 / 1.62
Avg. Volume (12 Months)	9,968,208

Multiples	2018	2019E	2020E
P/E	36.1	32.1	18.1
EV/Sales	6.9	5.4	4.3
EV/EBIT	24.5	15.6	13.4
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%



The Orbimed loan matures on June 2021 but Pharming has an option to repay the loan before maturity date, which it will now exercise. The interest rate is 11% + one month LIBOR (currently 1.67%). Pharming took out the Orbimed loan in May 2017. In our view, the over 75% reduction in the interest rate payable on the convertible in comparison to the Orbimed loan reflects the market's increased confidence in Pharming based on the continued growth of its quarterly revenues (74% since Q2/17) in the face of intense competition. The ca. €70m balance of the proceeds will be used to grow Pharming's production capacity and strengthen its product pipeline and marketing capabilities.

Second transgenic rabbit farm due to come on line shortly Pharming's sole revenue generating product, Ruconest, is produced from the milk of transgenic rabbits. Pharming recently completed the set-up of a second transgenic rabbit farm to meet growing demand for Ruconest. The second farm is expected to come on line in the short term following EMA approval. The building of a third farm, which is expected to cost €2-3m, is expected to start soon.

Pharming to set up own downstream processing facility Downstream processing of the transgenic rabbit milk produced by Pharming is carried out by Sanofi. Pharming intends to set up its own downstream facility which will operate in parallel with the Sanofi capacity. In-house processing costs are likely to be below the level charged by the French company. The new facility is expected to cost several tens of millions of euros.

Acquisition of commercial rights to market leading positions in Poland/Czech Republic In late December, Pharming announced that it had acquired the commercial rights to Ruconest in the remaining 36 of the original 60 countries for which Sobi (Swedish Orphan Biovitrum AB) had the marketing rights. The consideration is €7.5m payable in two tranches. Pharming acquired the commercial rights to Ruconest for Austria, Germany and the Netherlands in 2014. In 2016 it acquired the rights to a further 21 countries including Belgium, France, Ireland, Portugal, Spain, Switzerland and the United Kingdom. The latest agreement encompasses all remaining EU markets. CSL Behring or Takeda are market leaders in drugs for the treatment of hereditary angioedema on most west European markets but Pharming now holds the leading position in the Czech Republic and Poland. Pharming's European sales fell 23% to €3.7m (9M/18: €4.8m) during the first nine months of 2019, mainly as a result of rising discount claims from government agencies. We expect 2020 sales in Europe to benefit from the recent acquisition of commercialisation rights from Sobi as well as from better availability of Ruconest following EMA approval of the second transgenic rabbit farm. We also expect Pharming's own marketing effort in these countries to be more effective than that of Sobi.

In-licensing of Leniolisib may be followed by further similar deals In August last year, Pharming acquired from Novartis an exclusive license to Leniolisib (CDZ173) for the treatment of APDS (Activated Phosphoinositide 3-kinase Delta Syndrome). APDS is an ultra-rare disease with an estimated worldwide prevalence 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 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 is likely to use part of the convertible proceeds to finance further similar deals if suitable opportunities present themselves.

Buy recommendation maintained; price target raised to €2.00 (previously: €1.90)

Figure 1 over leaf shows upward adjustments to our 2020 forecast to take account of the recent acquisition of marketing rights previously held by Sobi (Swedish Orphan Biovitrum AB) to additional countries. In this study we also show for the first time a full 2021 forecast.



Our 2019 forecasts are unchanged. Beyond 2023 our model also incorporates the likely improvement in profitability stemming from the addition of Pharming's own downstream rabbit milk processing facility. We now see fair value for the Pharming share at €2.00 (previously: €1.90): We maintain our Buy recommendation.

Figure 1: Changes to our forecasts

All figures in €m	Old	2020E New	Delta	2021E New
Sales	212.00	216.20	2.0%	243.27
EBIT	67.99	69.25	1.9%	79.68
margin	32.1%	32.0%	-	32.8%
Net income	49.57	50.89	2.7%	59.06
margin	23.4%	23.5%	-	24.3%
EPS in € (fully diluted)	0.08	0.08	2.7%	0.10

Source: First Berlin Equity Research estimates

Figure 2: Valuation model

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	€23.2M	4K	€ 43,478	€174M	15%	€12M	62%	0%	16	-
Ruconest (US)	HAE-AA	€1,645.3M	4K	€ 225,330	€901M	20%	€345M	88%	10%	12	-
Ruconest (EU)	HAE-PR	€4.7M	1K	€ 86,957	€87M	10%	€10M	62%	12%	4	4 years
Ruconest (US)	HAE-PR	€267.0M	2K	€ 463,768	€723M	15%	€160M	8%	12%	5	3 years
rhaGLU (EU+US)	Pompe	€479.9M	3K	€ 260,870	€826M	30%	€718M	85%	2%	18	3 years
PV of gross profits		€2,420.2M			€2,712M		€1,245M				
Costs PV		€1,056.0M									
PV after costs		€1,364.2M									
Contingent consideration		€34.5M									
Net cash (pro-forma)		€14.9M									
Fair Value		€1,344.6M									
Share Count (fully diluted, PV)		671,010K									
Fair value per share		€ 2.00									

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

Figure 3: Changes to our valuation model

	Old	New	Delta
PV of gross profits	€2,326.5M	€2,420.2M	4.0%
Costs PV	€1,022.4M	€1,056.0M	3.3%
PV after costs	€1,304.1M	€1,364.2M	4.6%
Contingent consideration	€34.5M	€34.5M	0.0%
Proforma net cash	€8.4M	€14.9M	77.1%
Fair Value	€1,278.0M	€1,344.6M	5.2%
Share Count (fully diluted, PV)	677,266K	671,009K	-0.9%
Fair value per share	€ 1.90	€ 2.00	5.5%

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
Revenues	15,873	89,620	135,130	170,935	216,200	243,270
Costs of sales	-4,683	-12,445	-22,180	-21,987	-31,598	-33,114
Gross profit	11,190	77,175	112,950	148,948	184,602	210,156
Other income	335	790	684	392	400	400
Research and development	-15,388	-18,657	-28,882	-34,226	-47,000	-53,519
General and administrative	-4,642	-5,974	-12,221	-14,880	-16,950	-18,975
Marketing and sales	-3,035	-31,422	-34,539	-40,682	-51,800	-58,385
Operating income (EBIT)	-11,540	21,912	37,992	59,552	69,252	79,677
Net financial result	-5,996	-107,601	-37,135	-20,528	-3,943	-3,957
Pre-tax income (EBT)	-17,536	-85,689	857	39,024	65,309	75,719
Income taxes	0	9,442	24,136	-10,349	-14,416	-16,658
Minority interests	0	0	0	0	0	0
Net income / loss	-17,536	-76,247	24,993	28,674	50,893	59,061
Diluted EPS	-0.04	-0.15	0.04	0.05	0.08	0.10
EBITDA	-10,784	25,327	40,342	63,402	73,102	83,527
Ratios						
Gross margin on revenues	70.5%	86.1%	83.6%	87.1%	85.4%	86.4%
EBITDA margin on revenues	n.m.	28.3%	29.9%	37.1%	33.8%	34.3%
EBIT margin on revenues	n.m.	24.4%	28.1%	34.8%	32.0%	32.8%
Net margin on revenues	n.m.	n.m.	18.5%	16.8%	23.5%	24.3%
Expenses as % of revenues						
Cost of sales	29.5%	13.9%	16.4%	12.9%	14.6%	13.6%
Research and development	96.9%	20.8%	21.4%	20.0%	21.7%	22.0%
General and administrative	29.2%	6.7%	9.0%	8.7%	7.8%	7.8%
Marketing and sales	19.1%	35.1%	25.6%	23.8%	24.0%	24.0%
Y-Y Growth						
Revenues	46.6%	464.6%	50.8%	26.5%	26.5%	12.5%
Operating income	n.m.	n.m.	73.4%	56.7%	16.3%	15.1%
Net income/ loss	n.m.	n.m.	n.m.	14.7%	77.5%	16.1%



BALANCE SHEET

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
Assets						
Current assets, total	62,190	88,251	115,440	103,651	184,344	239,511
Cash and cash equivalents	31,889	58,657	80,311	59,214	128,140	176,269
Receivables	12,360	11,260	17,814	22,534	28,501	32,070
Inventories	17,941	18,334	17,315	21,903	27,703	31,172
Other current assets	0	0	0	0	0	0
Non-current assets, total	64,593	77,939	99,129	120,586	137,234	148,460
Property, plant & equipment	6,043	8,234	8,402	9,401	19,458	31,625
Right of use assets	0	0	0	6,000	6,486	6,812
Long term prepayments	1,622	2,296	2,006	0	0	0
Deferred tax assets	0	9,442	35,082	30,000	30,000	30,000
Investments accounted for using the equity method	0	0	0	5,700	6,555	7,538
Goodwill & other intangibles	56,680	56,631	52,435	68,085	73,335	71,085
Restricted cash	248	1,336	1,204	1,400	1,400	1,400
Total assets	126,783	166,190	214,569	224,238	321,578	387,971
Shareholders' equity & debt						
Current liabilities, total	51,378	60,743	82,599	114,580	49,522	55,511
Debt	26,136	22,398	35,235	35,000	0	0
Contract liabilities	943	804	800	1,012	1,280	1,440
Derivative financial liabilities	9,982	10,080	228	228	228	228
Trade and other payables	14,054	27,198	28,589	36,164	45,741	51,468
Finance lease liabilities	263	263	263	2,123	2,274	2,375
Other financial liabilities	0	0	17,484	40,053	0	0
Longterm liabilities, total	47,938	89,337	70,219	20,156	130,807	131,167
Debt	40,395	59,161	37,267	14,911	125,000	125,000
Deferred tax liabilities	0	0	87	87	87	87
Contract liabilities	2,270	1,467	667	855	1,081	1,216
Finance lease liabilities	599	390	164	4,304	4,639	4,864
Other financial liabilities	4,674	28,319	32,034	0	0	0
Minority interests	0	0	0	0	0	0
Shareholders' equity	27,467	16,110	61,751	89,501	141,249	201,293
Total consolidated equity and debt	126,783	166,190	214,569	224,238	321,578	387,971
Ratios						
Current ratio (x)	1.21	1.45	1.40	0.90	3.72	4.31
Quick ratio (x)	0.86	1.15	1.19	0.71	3.16	3.75
Net gearing	128.4%	137.9%	-13.9%	-4.8%	1.7%	-22.6%
Book value per share (€)	0.06	0.03	0.10	0.14	0.23	0.32
Net debt	35,256	22,219	-8,586	-4,276	2,373	-45,430
Return on equity (ROE)	-68.4%	-349.9%	64.2%	37.9%	44.1%	34.5%



CASH FLOW STATEMENT

All figures in EUR '000	2016A	2017A	2018A	2019E	2020E	2021E
EBIT	-11,540	21,912	37,992	59,552	69,252	79,677
Depreciation and amortization	756	3,415	6,559	3,850	3,850	3,850
EBITDA	-10,784	25,327	44,551	63,402	73,102	83,527
Changes in working capital	642	11,099	-4,144	-1,905	-1,696	-1,015
Net financial income, taxes	138	1,787	-31	-18,130	-18,359	-20,616
Milestone payments	0	0	0	-17,484	-40,053	0
Other	0	0	0	0	0	0
Operating cash flow	-10,004	38,213	40,376	25,883	12,993	61,897
CAPEX	-57,474	-6,045	-3,769	-28,999	-19,643	-14,093
Free cash flow	-67,478	32,168	36,607	-3,117	-6,650	47,804
Debt financing, net	63,635	-10,088	-28,457	-24,372	71,632	-3,632
Equity financing, net	8,825	6,833	10,496	3,536	0	0
Other changes in cash	-4,736	-1,057	3,008	2,855	3,943	3,957
Net cash flows	246	27,856	21,654	-21,097	68,925	48,129
Cash, start of the year	31,643	31,889	58,657	80,311	59,214	128,140
Cash, end of the year	31,889	58,657	80,311	59,214	128,140	176,269
EBITDA/share	-0.03	0.05	0.07	0.10	0.12	0.13
Y-Y Growth						
Operating cash flow	n.m.	n.m.	5.7%	-35.9%	-49.8%	376.4%
Free cash flow	n.m.	n.m.	13.8%	n.m.	n.m.	n.m.
EBITDA/share	n.m.	n.m.	45.2%	39.7%	15.3%	14.3%

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...44	↓	↓	↓	↓
45	21 May 2019	€0.79	Buy	€1.80
46	29 July 2019	€0.94	Buy	€1.90
47	29 October 2019	€1.25	Buy	€1.90
48	Today	€1.48	Buy	€2.00

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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.

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.

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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

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

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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