

# Pharming Group NV

Netherlands / Biotechnology

Primary exchange: Euronext Amsterdam /

Secondary exchange: Frankfurt

Bloomberg: PHARM NA

ISIN: NL0010391025

**Preliminary 2019  
results**
**RATING****PRICE TARGET**

Return Potential

Risk Rating

**BUY****€ 2.00**

81.0%

High

## MARKET SHARE GAINS SPUR STRONG 2019 PERFORMANCE

Market share gains from leading competitors Takeda and CSL Behring helped Pharming to post increases in sales and EBIT of 25.1% and 60.3% respectively in 2019. Ruconest's strong market position among more severely affected hereditary angioedema (HAE) patients as well as its increasing use for treatment of breakthrough attacks suffered by patients using prophylactic therapies suggest that growth will remain robust this year. Meanwhile, Pharming has started capacity expansion of its production platform to possibly a multiple of its current size to cater to growing demand from HAE patients as well as, conditional on regulatory approval, the requirements of indications such as acute kidney injury, preeclampsia and Pompe disease. We maintain our Buy recommendation and price target of €2.00.

**US Dollar strength boosted product sales** Pharming's 2019 results showed a 25.1% increase in revenue to €169.0m (2018: €135.1m) while EBIT climbed 60.3% to €60.9m (2018: €38.0m). Both revenue and EBIT were close to our estimates. The increase in revenue was driven by a 28.5% increase in US product sales to €162.7m (€126.6m) which in turn was boosted by a ca. 5% increase in the USD:EUR exchange rate. In local currency terms US product sales climbed 22.0% to USD182.2m (2018: USD149.3m). Product sales in Europe fell back to €4.9m (2018: €7.7m) due in part to revenue clawbacks on direct sales made by Pharming in France.

**Pharming gained market share in 2019** The market leader in HAE therapy is Takeda, which, as figure 2 overleaf shows, generated HAE sales of over USD1.3bn in calendar 2019. However, this number was down 23% on the prior year. Strong growth in Takeda's prophylactic product, Takhzyro, launched in Q3 2018, cannibalised sales of longer established products in the company's HAE portfolio and also failed to compensate for the acute product Firazyr going off patent in July 2019. Pharming's second largest competitor in HAE is CSL Behring. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019P	2020E	2021E
Revenue (€m)	15.87	89.62	135.13	169.02	216.20	221.55
Y-o-y growth	46.6%	464.6%	50.8%	25.1%	27.9%	2.5%
EBIT (€m)	-11.54	21.91	37.99	60.91	69.25	72.49
EBIT margin	-72.7%	24.4%	28.1%	36.0%	32.0%	32.7%
Net income (€m)	-17.54	-76.25	24.99	36.20	50.90	53.46
EPS (diluted) (€)	-0.04	-0.15	0.04	0.05	0.08	0.08
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-67.48	32.17	36.61	40.38	40.10	45.57
Net gearing	131.5%	142.0%	-13.2%	-15.9%	-22.1%	-28.1%
Liquid assets (€m)	31.89	58.66	80.31	66.30	164.04	188.57

### 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 06 Mar 2020

Closing Price	€ 1.11
Shares outstanding	633.73m
Market Capitalisation	€ 700.27m
52-week Range	€ 0.72 / 1.62
Avg. Volume (12 Months)	10,146,273

Multiples	2019P	2020E	2021E
P/E	20.5	13.7	13.0
EV/Sales	4.0	3.2	3.1
EV/EBIT	11.2	9.9	9.4
Div. Yield	0.0%	0.0%	0.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Dec 2019

Liquid Assets	€ 66.30m
Current Assets	€ 107.57m
Intangible Assets	€ 78.31m
Total Assets	€ 238.92m
Current Liabilities	€ 110.46m
Shareholders' Equity	€ 104.68m

### SHAREHOLDERS

Goldman Sachs Group Inc.	3.0%
Polar Capital Partners Ltd.	2.9%
FMR LLC	2.9%
Deutsche Bank	2.7%
Free float and other	88.5%

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

€m	FY 19A	Consensus	% Δ	2019 FBe	% Δ	FY 18A	% Δ
Sales	169.0	170.5	-0.9%	170.9	-1.1%	135.1	25.1%
EBIT	60.9	56.8	7.2%	59.6	2.3%	37.99	60.3%

Source: First Berlin Equity Research estimates, Pharming Group NV, Bloomberg

CSL Behring does not break out exact revenue figures for its HAE products Berinert (acute treatment) and Haegarda (prophylaxis), but in its H1 report (to end December) the company stated that Berinert sales showed “modest growth” while sales of Haegarda (launched mid-2017) “grew modestly”. Pharming’s revenues rose by over 20% y-o-y during calendar H2/19. Ruconest’s 2019 sales growth was partly attributable to its increasing use to counter breakthrough attacks suffered by users of the new prophylaxis therapies.

**Figure 2: Calendar 2019 Takeda HAE product sales vs. 2018**

USD m	FY 19	FY 18	% Δ
Firazyr	268	773	-65.4%
Takhzyro	538	62	773.2%
Kalbitor	42	71	-40.2%
Cinryze	201	445	-54.9%
<b>Total</b>	<b>1,049</b>	<b>1,354</b>	<b>-22.5%</b>

Source: Takeda

**Gross margin widened in 2019** Pharming’s gross margin widened to 87.4% in 2019 (2018: 83.6%) mainly due to the absence in 2019 of the large volumes of free vials which were issued in 2018 to patients unable to get their normal medication from competitors due to shortages. Robust sales growth meant that operating costs fell as a percentage of sales to 51.6% (2018: 56.0%) while its components all increased in absolute terms (R&D:+14.1%; General & Admin:+17.3%, marketing:+15.6%). Main R&D projects were preparation and initiation of the studies of rhC1INH in preeclampsia and acute kidney injury, development of more convenient versions of Ruconest and preparation and production of α-glucosidase for Pompe disease and α-galactosidase for Fabry disease.

**Figure 3: Expected pipeline newsflow**

H1 20	Start phase II trial in acute kidney injury
H2 20	Pre-eclampsia phase I/II trial safety component read-out
Q2 21	Completion of leniolisib phase II/III trial
H1 21	Start clinical studies of new delivery methods
	Full read-out on phase I/II trial in pre-eclampsia
Q4 21	IND filing in Pompe disease
H2 21	Read-out on acute kidney injury phase II trial
2021	Read-out on investigator-initiated study in delayed graft function
H1 22	Start phase I/II trial in Pompe disease
2022	Launch of leniolisib subject to market approval
2024	Start phase I/II trial in Fabry disease

Source: Pharming Group NV

**Change in Pompe disease clinical development plan** Figure 3 shows our expectation of future product pipeline newsflow. According to the 2019 preliminary results report, the acute kidney trial is expected to start over “the next couple of months”. The last time we published a pipeline newsflow forecast in October last year, we pencilled in the filing of the IND (investigational new drug) application in Pompe disease for Q4 2020. Management now expects the IND application in this indication to be filed “towards the end of 2021”. This is a consequence of a change in the clinical development plan, which now incorporates a multiple ascending dose phase Ib/II trial. The new plan requires a larger amount of α-glucosidase but will finish at the same time as the previous plan which stipulated a single dose phase I.



**Expected launch date for APDS drug put back to mid-2022** Last August Pharming acquired an exclusive license to CDZ173 for the treatment of APDS (Activated Phosphoinositide 3-kinase Delta Syndrome) from Novartis. In February Novartis, who are sponsoring a registration-enabling pivotal study of CDZ173, announced that the study is now expected to complete in June 2021 versus the previous schedule of July 2020. This in turn has caused Pharming to put back the expected launch date for the drug (if approved) from H2 2021/H1 2022 to mid-2022.

**End February cash position was €149.2m** In January Pharming issued a €125m five-year 3.0% coupon bond convertible into its shares at €2.00. The proceeds of the issue allowed the refinancing of the USD56m (€50m) loan outstanding with Orbimed and the balance will be used to grow the company's production capacity and strengthen its product pipeline and marketing capabilities. The Orbimed loan had an effective interest rate of over 13% and so the new bond reduces Pharming's cost of debt by over 75%. In early 2020 Pharming also made an initial €5.5m payment to Sobi (Swedish Orphan Biovitrum AB) for the commercial rights to Ruconest in the remaining 36 of the original 60 countries for which Sobi had the marketing rights. It also paid the second USD20m milestone to Bausch (formerly Valeant). The company's cash position at the end of February was €149.2m.

**Capacity expansion** Pharming has completed the set-up of a second transgenic rabbit farm to meet growing demand for Ruconest. This farm recently came on line following EMA and FDA approval. The building of a third farm, which is expected to cost €2-3m, is expected to start soon. Pharming is also considering building a fourth farm. If Pharming gains approval for new larger indications such as acute kidney injury, preeclampsia and Pompe disease, demands placed on its production platform may outstrip current capacity several fold. Against this background the company is revisiting cattle as a source of manufacturing material. Pharming has also started work on a new downstream processing plant (purification, virus inactivation/removal, concentration, formulation) which will double the capacity currently available to it. The new facility is expected to cost several tens of millions of euros.

**Buy recommendation and €2.00 price target maintained** We have made only minor changes to our forecasts for 2020, 2021 and subsequent years. Given that we have not yet included CDZ173 in our valuation model, the delay in this project has no impact on our price target which remains at €2.00. We maintain our Buy recommendation.

**Figure 4: 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	€22.8M	4K	€ 43,478	€174M	15%	€12M	62%	0%	16	-
Ruconest (US)	HAE-AA	€1,517.2M	4K	€ 225,330	€901M	20%	€31M	88%	10%	12	-
Ruconest (EU)	HAE-PR	€5.2M	1K	€ 86,957	€87M	10%	€10M	62%	12%	4	5 years
Ruconest (US)	HAE-PR	€284.5M	2K	€ 463,768	€723M	15%	€152M	8%	12%	5	4 years
rhaGLU (EU+US)	Pompe	€511.9M	3K	€ 260,870	€826M	30%	€684M	85%	2%	18	4 years
<b>PV of gross profits</b>		<b>€2,341.6M</b>			<b>€2,712M</b>		<b>€1,172M</b>				
Costs PV		€995.4M									
<b>PV after costs</b>		<b>€1,346.2M</b>									
Contingent consideration		€39.2M									
Net cash (pro-forma)		€37.3M									
Fair Value		€1,344.3M									
Share Count (fully diluted, PV)		671,846K									
<b>Fair value per share</b>		<b>€ 2.00</b>									

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	2016A	2017A	2018A	2019P	2020E	2021E
<b>Revenues</b>	<b>15,873</b>	<b>89,620</b>	<b>135,130</b>	<b>169,022</b>	<b>216,200</b>	<b>221,548</b>
Costs of sales	-4,683	-12,445	-22,180	-21,355	-31,598	-30,261
<b>Gross profit</b>	<b>11,190</b>	<b>77,175</b>	<b>112,950</b>	<b>147,667</b>	<b>184,602</b>	<b>191,287</b>
Other income	335	790	684	435	400	400
Research and development	-15,388	-18,657	-28,882	-32,940	-47,000	-48,741
General and administrative	-4,642	-5,974	-12,221	-14,341	-16,950	-17,281
Marketing and sales	-3,035	-31,422	-34,539	-39,914	-51,800	-53,172
<b>Operating income (EBIT)</b>	<b>-11,540</b>	<b>21,912</b>	<b>37,992</b>	<b>60,907</b>	<b>69,252</b>	<b>72,494</b>
Net financial result	-5,996	-107,601	-37,135	-14,228	-3,939	-3,954
<b>Pre-tax income (EBT)</b>	<b>-17,536</b>	<b>-85,689</b>	<b>857</b>	<b>46,679</b>	<b>65,312</b>	<b>68,540</b>
Income taxes	0	9,442	24,136	-10,484	-14,416	-15,079
Minority interests	0	0	0	0	0	0
<b>Net income / loss</b>	<b>-17,536</b>	<b>-76,247</b>	<b>24,993</b>	<b>36,195</b>	<b>50,896</b>	<b>53,461</b>
<b>Diluted EPS</b>	<b>-0.04</b>	<b>-0.15</b>	<b>0.04</b>	<b>0.05</b>	<b>0.08</b>	<b>0.08</b>
<b>EBITDA</b>	<b>-10,784</b>	<b>25,327</b>	<b>40,342</b>	<b>64,757</b>	<b>73,102</b>	<b>76,344</b>
<b>Ratios</b>						
Gross margin on revenues	70.5%	86.1%	83.6%	87.4%	85.4%	86.3%
EBITDA margin on revenues	n.m.	28.3%	29.9%	38.3%	33.8%	34.5%
EBIT margin on revenues	n.m.	24.4%	28.1%	36.0%	32.0%	32.7%
Net margin on revenues	n.m.	n.m.	18.5%	21.4%	23.5%	24.1%
<b>Expenses as % of revenues</b>						
Cost of sales	29.5%	13.9%	16.4%	12.6%	14.6%	13.7%
Research and development	96.9%	20.8%	21.4%	19.5%	21.7%	22.0%
General and administrative	29.2%	6.7%	9.0%	8.5%	7.8%	7.8%
Marketing and sales	19.1%	35.1%	25.6%	23.6%	24.0%	24.0%
<b>Y-Y Growth</b>						
Revenues	46.6%	464.6%	50.8%	25.1%	27.9%	2.5%
Operating income	n.m.	n.m.	73.4%	60.3%	13.7%	4.7%
Net income/ loss	n.m.	n.m.	n.m.	44.8%	40.6%	5.0%



## BALANCE SHEET

All figures in EUR '000	2016A	2017A	2018A	2019P	2020E	2021E
<b>Assets</b>						
<b>Current assets, total</b>	<b>62,190</b>	<b>88,251</b>	<b>115,440</b>	<b>107,573</b>	<b>216,831</b>	<b>242,672</b>
Cash and cash equivalents	31,889	58,657	80,311	66,299	164,036	188,572
Receivables	12,360	11,260	17,814	26,807	34,289	35,138
Inventories	17,941	18,334	17,315	14,467	18,505	18,963
Other current assets	0	0	0	0	0	0
<b>Non-current assets, total</b>	<b>64,593</b>	<b>77,939</b>	<b>99,129</b>	<b>131,349</b>	<b>148,375</b>	<b>160,964</b>
Property, plant & equipment	6,043	8,234	8,402	8,553	19,026	33,232
Right of use assets	0	0	0	5,979	6,486	6,203
Long term prepayments	1,622	2,296	2,006	0	0	0
Deferred tax assets	0	9,442	35,082	30,933	30,933	30,933
Investments accounted for using the equity method	0	0	0	5,307	6,103	7,019
Goodwill & other intangibles	56,680	56,631	52,435	78,309	83,559	81,309
Restricted cash	248	1,336	1,204	2,268	2,268	2,268
<b>Total assets</b>	<b>126,783</b>	<b>166,190</b>	<b>214,569</b>	<b>238,922</b>	<b>365,206</b>	<b>403,636</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>51,378</b>	<b>60,743</b>	<b>82,599</b>	<b>110,456</b>	<b>59,697</b>	<b>61,028</b>
Debt	26,136	22,398	35,235	45,590	0	0
Contract liabilities	943	804	800	0	0	0
Derivative financial liabilities	9,982	10,080	228	268	268	268
Trade and other payables	14,054	27,198	28,589	44,817	57,326	58,745
Finance lease liabilities	263	263	263	1,946	2,102	2,015
Other financial liabilities	0	0	17,484	17,835	0	0
<b>Longterm liabilities, total</b>	<b>47,938</b>	<b>89,337</b>	<b>70,219</b>	<b>23,787</b>	<b>149,138</b>	<b>131,861</b>
Debt	40,395	59,161	37,267	0	125,000	125,000
Deferred tax liabilities	0	0	87	2,343	2,343	2,343
Contract liabilities	2,270	1,467	667	0	0	0
Finance lease liabilities	599	390	164	4,363	4,714	4,518
Other financial liabilities	4,674	28,319	32,034	17,081	17,081	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>27,467</b>	<b>16,110</b>	<b>61,751</b>	<b>104,679</b>	<b>156,371</b>	<b>210,748</b>
<b>Total consolidated equity and debt</b>	<b>126,783</b>	<b>166,190</b>	<b>214,569</b>	<b>238,922</b>	<b>365,206</b>	<b>403,636</b>
<b>Ratios</b>						
Current ratio (x)	1.21	1.45	1.40	0.97	3.63	3.98
Quick ratio (x)	0.86	1.15	1.19	0.84	3.32	3.67
Net gearing	128.4%	137.9%	-13.9%	-15.9%	-22.1%	-28.1%
Book value per share (€)	0.06	0.03	0.10	0.17	0.25	0.33
Net debt	35,256	22,219	-8,586	-16,668	-34,488	-59,306
Return on equity (ROE)	-68.4%	-349.9%	64.2%	43.5%	39.0%	29.1%



## CASH FLOW STATEMENT

All figures in EUR '000	2016A	2017A	2018A	2019P	2020E	2021E
<b>EBIT</b>	<b>-11,540</b>	<b>21,912</b>	<b>37,992</b>	<b>60,907</b>	<b>69,252</b>	<b>72,494</b>
Depreciation and amortization	756	3,415	6,559	5,177	3,850	3,850
<b>EBITDA</b>	<b>-10,784</b>	<b>25,327</b>	<b>44,551</b>	<b>66,084</b>	<b>73,102</b>	<b>76,344</b>
Changes in working capital	642	11,099	-4,144	8,938	989	112
Interest received, taxes paid	5	3	-1,399	-2,273	-14,416	-15,079
Other	133	1,784	1,368	352	0	0
<b>Operating cash flow</b>	<b>-10,004</b>	<b>38,213</b>	<b>40,376</b>	<b>73,101</b>	<b>59,674</b>	<b>61,378</b>
CAPEX	-57,474	-6,045	-3,769	-32,717	-19,573	-15,807
<b>Free cash flow</b>	<b>-67,478</b>	<b>32,168</b>	<b>36,607</b>	<b>40,384</b>	<b>40,102</b>	<b>45,571</b>
<b>Debt financing, net</b>	<b>61,722</b>	<b>1,723</b>	<b>-15,137</b>	<b>-31,144</b>	<b>79,410</b>	<b>0</b>
<b>Equity financing, net</b>	<b>8,825</b>	<b>6,833</b>	<b>10,496</b>	<b>2,778</b>	<b>0</b>	<b>0</b>
Payment on contingent consideration	0	0	0	-17,634	-17,835	-17,081
Bond redemptions	0	-3,934	-2,257	0	0	0
Interest on loans	-3,220	-7,877	-11,063	-8,680	-3,939	-3,954
<b>Financing cash flow</b>	<b>67,327</b>	<b>-3,255</b>	<b>-17,961</b>	<b>-54,680</b>	<b>57,636</b>	<b>-21,035</b>
<b>Net cash flows</b>	<b>-151</b>	<b>28,913</b>	<b>18,646</b>	<b>-14,296</b>	<b>97,737</b>	<b>24,535</b>
Exchange rate effects	445	-1,057	2,876	1,348	0	0
<b>Cash, start of the year</b>	<b>31,843</b>	<b>32,137</b>	<b>59,993</b>	<b>81,515</b>	<b>68,567</b>	<b>166,304</b>
<b>Cash, end of the year</b>	<b>32,137</b>	<b>59,993</b>	<b>81,515</b>	<b>68,567</b>	<b>166,304</b>	<b>190,840</b>
<b>EBITDA/share</b>	<b>-0.03</b>	<b>0.05</b>	<b>0.07</b>	<b>0.11</b>	<b>0.12</b>	<b>0.12</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.m.	n.m.	5.7%	81.1%	-18.4%	2.9%
Free cash flow	n.m.	n.m.	13.8%	10.3%	-0.7%	13.6%
EBITDA/share	n.m.	n.m.	45.2%	45.0%	9.3%	4.4%

**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...45	↓	↓	↓	↓
46	29 July 2019	€0.94	Buy	€1.90
47	29 October 2019	€1.25	Buy	€1.90
48	16 January 2020	€1.48	Buy	€2.00
49	Today	€1.11	Buy	€2.00

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### 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

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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/>

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

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