

Pharming Group NV

Netherlands / Biotechnology

Primary exchange: Euronext Amsterdam /

Secondary exchange: Frankfurt

Bloomberg: PHARM NA

ISIN: NL0010391025

Encouraging results
from Ruconest
COVID-19 trial

RATING
PRICE TARGET

Return Potential
Risk Rating

BUY
€ 2.00

49.3%
High

POSITIONED FOR COVID-19 FOLLOWING Q1/20 CAPACITY INCREASE

Pharming has reported encouraging results of a trial of Ruconest (recombinant human C1 inhibitor) with five covid-19 patients under a compassionate use programme at the University Hospital Basel, Switzerland. None of these patients responded to standard treatments including hydroxychloroquine and lopinavir/ritonavir, but four of the five recovered within 48 hours following treatment with Ruconest. The fifth patient recovered following oxygen treatment. A multinational, investigator-initiated clinical trial with up to 150 patients led by the University Hospital Basel is now planned. The most valuable market for Pharming and competing C1 inhibitor producers Takeda and CSL Behring are the ca. 7,500 diagnosed hereditary angioedema (HAE) patients in the US. Pharming's revenue grew 25% last year as it gained market share from its competitors. Ruconest's strong position among more severely affected HAE patients as well as its increasing use for treatment of breakthrough attacks suffered by patients using the prophylactic therapies Takhzyro (Takeda) and Haegarda (CSL Behring) suggest that growth will remain robust this year. To meet rising demand for Ruconest, Pharming set up a second transgenic rabbit farm which came on line in Q1/20 following EMA and FDA approval. The second rabbit farm will double Ruconest capacity and make possible the treatment of a limited number of severely affected covid-19 patients. However, pending completion of the 150-patient trial, we are leaving our price target of €2.00 unchanged. We maintain our Buy rating.

Inhibition of complement/contact systems is likely to be Ruconest's mode of action in covid-19 Ruconest's mode of action in the treatment of covid-19 is not fully clear. However, C1 inhibitor's anti-inflammatory properties including inhibition of the complement and contact systems are well established. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019	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 22 Apr 2020

Closing Price	€ 1.34
Shares outstanding	633.73m
Market Capitalisation	€ 849.19m
52-week Range	€ 0.72 / 1.62
Avg. Volume (12 Months)	11,783,757

Multiples	2019	2020E	2021E
P/E	24.0	16.1	15.3
EV/Sales	4.8	3.7	3.6
EV/EBIT	13.2	11.6	11.1
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	88.4%



Pharming is seeking to harness these properties of Ruconest for therapies of acute kidney injury and preeclampsia among other indications. With covid-19 it is likely that the same properties hamper progression of the disease to life-threatening pneumonia.

The annual aggregate dose for the average HAE patient on Ruconest is ca. 100,000 U. The five covid-19 patients were given a total Ruconest dose of 21,000 U each, although the 150 patient trial may find that a higher or lower dose is more effective. Nevertheless, this suggests that following the Q1/20 capacity increase, and if the 150 patient trial is successful, Pharming will be able to treat a limited number of severely affected covid-19 patients.

Unclear when additional transgenic rabbit and cattle capacity will come on stream

Pharming is planning to start the construction of a third transgenic rabbit farm soon and is considering building a fourth farm. If Pharming gains approval for new larger indications such as acute kidney injury and preeclampsia, 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. Once the cattle line starts producing, capacity will be virtually unlimited. However, it is currently unclear when the additional transgenic rabbit and cattle capacity will come on stream.

We maintain our Buy rating at an unchanged price target of €2.00 Pending completion of the 150-patient trial, we are leaving our price target of €2.00 unchanged. We maintain our Buy rating.



VALUATION MODEL

Figure 1: 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	€22.8M	4K	€ 43,478	€174M	15%	€12M	62%	0%	16	-
Ruconest (US)	HAE-AA	€1,517.2M	4K	€ 225,330	€901M	20%	€314M	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
PV of gross profits		€2,341.6M			€2,712M		€1,172M				
Costs PV		€995.4M									
PV after costs		€1,346.2M									
Contingent consideration		€39.2M									
Net cash (pro-forma)		€37.6M									
Fair Value		€1,344.6M									
Share Count (fully diluted, PV)		672,536K									
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



INCOME STATEMENT

All figures in EUR '000	2016A	2017A	2018A	2019A	2020E	2021E
Revenues	15,873	89,620	135,130	169,022	216,200	221,548
Costs of sales	-4,683	-12,445	-22,180	-21,355	-31,598	-30,261
Gross profit	11,190	77,175	112,950	147,667	184,602	191,287
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
Operating income (EBIT)	-11,540	21,912	37,992	60,907	69,252	72,494
Net financial result	-5,996	-107,601	-37,135	-14,228	-3,939	-3,954
Pre-tax income (EBT)	-17,536	-85,689	857	46,679	65,312	68,540
Income taxes	0	9,442	24,136	-10,484	-14,416	-15,079
Minority interests	0	0	0	0	0	0
Net income / loss	-17,536	-76,247	24,993	36,195	50,896	53,461
Diluted EPS	-0.04	-0.15	0.04	0.05	0.08	0.08
EBITDA	-10,784	25,327	40,342	64,757	73,102	76,344
Ratios						
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%
Expenses as % of revenues						
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%
Y-Y Growth						
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	2019A	2020E	2021E
Assets						
Current assets, total	62,190	88,251	115,440	107,573	216,831	242,672
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
Non-current assets, total	64,593	77,939	99,129	131,349	148,375	160,964
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
Total assets	126,783	166,190	214,569	238,922	365,206	403,636
Shareholders' equity & debt						
Current liabilities, total	51,378	60,743	82,599	110,456	59,697	61,028
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
Longterm liabilities, total	47,938	89,337	70,219	23,787	149,138	131,861
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
Minority interests	0	0	0	0	0	0
Shareholders' equity	27,467	16,110	61,751	104,679	156,371	210,748
Total consolidated equity and debt	126,783	166,190	214,569	238,922	365,206	403,636
Ratios						
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%	n.a.	64.2%	43.5%	39.0%	29.1%



CASH FLOW STATEMENT

All figures in EUR '000	2016A	2017A	2018A	2019A	2020E	2021E
EBIT	-11,540	21,912	37,992	60,907	69,252	72,494
Depreciation and amortization	756	3,415	6,559	5,177	3,850	3,850
EBITDA	-10,784	25,327	44,551	66,084	73,102	76,344
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
Operating cash flow	-10,004	38,213	40,376	73,101	59,674	61,378
CAPEX	-57,474	-6,045	-3,769	-32,717	-19,573	-15,807
Free cash flow	-67,478	32,168	36,607	40,384	40,102	45,571
Debt financing, net	61,722	1,723	-15,137	-31,144	79,410	0
Equity financing, net	8,825	6,833	10,496	2,778	0	0
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
Financing cash flow	67,327	-3,255	-17,961	-54,680	57,636	-21,035
Net cash flows	-151	28,913	18,646	-14,296	97,737	24,535
Exchange rate effects	445	-1,057	2,876	1,348	0	0
Cash, start of the year	31,843	32,137	59,993	81,515	68,567	166,304
Cash, end of the year	32,137	59,993	81,515	68,567	166,304	190,840
EBITDA/share	-0.03	0.05	0.07	0.11	0.12	0.12
Y-Y Growth						
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...46	↓	↓	↓	↓
47	29 October 2019	€1.25	Buy	€1.90
48	16 January 2020	€1.48	Buy	€2.00
49	9 March 2020	€1.11	Buy	€2.00
50	Today	€1.34	Buy	€2.00

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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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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.

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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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