

Pharming Group NV

Netherlands / Biotechnology

Primary exchange: Euronext Amsterdam /

Secondary exchange: Frankfurt

Bloomberg: PHARM NA

ISIN: NL0010391025

Q1/20 results

RATING**PRICE TARGET****BUY****€ 2.10**

Return Potential

57.3%

Risk Rating

High

STRONG START TO THE YEAR

Pharming reported strong Q1 results showing a 40.1% rise in revenue to €49.3m (Bloomberg consensus: €47.2m; Q1/19: €35.2m) and a 59.0% increase in EBIT to €19.4m. (Bloomberg consensus: €9.3m; Q1/19: €12.2m). The sales increase was driven by increased patient numbers attracted to Ruconest's efficacy both in an acute setting and for treatment of breakthrough attacks when using the prophylactic therapies Takhzyro and Haegarda. The SARS-CoV-2 pandemic has delayed the trials of Ruconest in preeclampsia and acute kidney injury patients but recent results from five covid-19 patients treated with Ruconest under a compassionate use programme were very promising. Pharming has not so far experienced any impact of the pandemic on the availability or distribution of Ruconest, but for the sake of conservatism we have shaved our 2020 revenue forecast by 5% to €206m (previously: €216m). However, against the background of Ruconest's current momentum our previous 2021 forecast now looks too low, and we raise it to €230m (previously: €222m). Our price target moves from €2.00 to €2.10 and we maintain our Buy recommendation.

US product sales up 37% in local currency US product sales increased 41% to €47.5m (Q1/19: €33.7m). At constant exchange rates the increase was still a very robust 37%. In Europe and the rest of the world product sales jumped 38% to €1.8m (Q1/19: €1.3m) due largely to the acquisition from 1 January of marketing rights to additional countries previously held by Sobi (Swedish Orphan Biovitrum AB). Net income at €8.4m was €3.9m below the consensus forecast because of €3.7m in costs associated with the repayment of the Orbimed loan.

End-March cash position of €134m Pharming had a net cash position of €9m at the end of Q1/20 (Q1/19: net debt of €5m). Early in the first quarter the company raised a gross €125m through a convertible bond issue. This issue and the repayment of the USD56m outstanding to Orbimed lowered Pharming's cost of debt from 12%-13% to 3%. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2016	2017	2018	2019	2020E	2021E
Revenue (€m)	15.87	89.62	135.13	169.02	205.79	230.32
Y-o-y growth	46.6%	464.6%	50.8%	25.1%	21.8%	11.9%
EBIT (€m)	-11.54	21.91	37.99	60.91	73.94	80.57
EBIT margin	-72.7%	24.4%	28.1%	36.0%	35.9%	35.0%
Net income (€m)	-17.54	-76.25	24.99	36.20	55.82	59.77
EPS (diluted) (€)	-0.04	-0.15	0.04	0.05	0.09	0.09
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-67.48	32.17	36.61	40.38	45.73	50.04
Net gearing	131.5%	142.0%	-13.2%	-15.9%	-25.1%	-31.2%
Liquid assets (€m)	31.89	58.66	80.31	66.30	169.66	198.67

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 18 May 2020

Closing Price	€ 1.34
Shares outstanding	634.99m
Market Capitalisation	€ 847.72m
52-week Range	€ 0.72 / 1.62
Avg. Volume (12 Months)	12,335,380

Multiples	2019	2020E	2021E
P/E	24.7	15.1	14.1
EV/Sales	5.0	4.1	3.6
EV/EBIT	13.8	11.3	10.4
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2020

Liquid Assets	€ 133.83m
Current Assets	€ 178.91m
Intangible Assets	€ 77.62m
Total Assets	€ 303.93m
Current Liabilities	€ 44.40m
Shareholders' Equity	€ 115.62m

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%

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

€m	Q1 20A	Consensus	% Δ	Q1 20 FBe	% Δ	Q1 19A	% Δ
Sales	49.3	47.2	4.6%	50.0	-1.4%	35.2	40.1%
EBIT	19.4	19.3	0.5%	15.9	22.4%	12.2	59.0%
Net income	8.4	12.3	-31.7%	9.4	-10.6%	6.74	24.6%

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

The convertible issue has also doubled Pharming's financial fire power as it was the main driver of the increase in the company's cash position of €66m at the end of December 2019 to €134m at the end of March. We expect that these funds will be used to grow Pharming's production capacity and strengthen its product pipeline and marketing capabilities.

New rabbit farm to double Pharming's Ruconest capacity During the first quarter a second transgenic rabbit farm came on line following EMA and FDA approval, which is expected to double Pharming's Ruconest capacity once it becomes fully operational. 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. Pharming may also use part of the convertible proceeds to finance deals similar to last summer's acquisition of Leniolisib from Novartis if suitable opportunities present themselves.

Promising results of Ruconest trial with covid-19 patients SARS-CoV-2 has delayed the start of the phase II trial of Ruconest with acute kidney injury patients and also halted recruitment to the phase I trial of Ruconest in preeclampsia. Results from the phase III Leniolisib trial are now expected in H1/21 rather than H2/20 but the planned launch date of H2/22 remains unchanged. In April Pharming reported encouraging results from five covid-19 patients treated with Ruconest under a compassionate use programme. A multinational, investigator-initiated clinical trial with up to 150 patients is now planned at the University Hospital Basel. Following the Q1/20 Ruconest capacity increase, and provided that the 150 patient trial is successful, Pharming is likely to be in a position to treat a few thousand severely affected covid-19 patients.

Price target moved from €2.00 to €2.10. Buy recommendation maintained Pharming has not so far experienced any impact of the pandemic on the availability or distribution of Ruconest but for the sake of conservatism we have shaved our 2020 revenue forecast by 5% to €206m (previously: €216m). Q1/20 EBIT was €3.5m above our forecasts mainly because we had pencilled in R&D expense of €11.0m. The outcome was €8.0m. Our 2020 EBIT forecast rises despite the reduction in our sales number because we have reduced our 2020 R&D forecast from €47m to €36m. Even allowing for the pandemic, against the background of Ruconest's current momentum our previous 2021 sales forecast of €222m now looks too low and we raise it to €230m. On the basis of these changes to our forecasts, our PV after costs estimate (see figure 4) rises 5%. Contingent consideration has halved following the payment in Q1/20 of the penultimate sales performance milestone to Bausch Health. The proforma net cash position and proforma share count both rise because we now take into account debt reduction through conversion of the convertible bonds (convert into shares at €2.0028). Our price target moves from €200 to €2.10 and we maintain our Buy recommendation.



Figure 2: Changes to our forecasts

All figures in €m	2020E			2021E		
	Old	New	Delta	Old	New	Delta
Sales	216.20	205.79	-4.8%	221.55	230.32	4.0%
EBIT	69.25	73.94	6.8%	72.49	80.57	11.1%
margin	32.0%	35.9%	-	32.7%	35.0%	-
Net income	50.90	55.82	9.7%	53.46	59.77	11.8%
margin	23.5%	27.1%	-	24.1%	25.9%	-
EPS in € (fully diluted)	0.08	0.09	9.7%	0.08	0.09	11.8%

Source: First Berlin Equity Research estimates

Figure 3: 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	€39.4M	4K	€ 45,455	€182M	15%	€12M	62%	0%	16	-
Ruconest (US)	HAE-AA	€1,577.6M	4K	€ 235,573	€942M	20%	€32M	88%	10%	12	-
Ruconest (EU)	HAE-PR	€5.4M	1K	€ 90,909	€91M	10%	€10M	62%	12%	4	5 years
Ruconest (US)	HAE-PR	€297.5M	2K	€ 484,848	€756M	15%	€159M	8%	12%	5	4 years
rhaGLU (EU+US)	Pompe	€535.2M	3K	€ 272,727	€864M	30%	€715M	85%	2%	18	4 years
PV of gross profits		€2,455.1M			€2,835M		€1,224M				
Costs PV		€1,048.7M									
PV after costs		€1,406.4M									
Contingent consideration		€18.3M									
Net cash (pro-forma)		€128.9M									
Fair Value		€1,517.0M									
Share Count (fully diluted, PV)		722,506K									
Fair value per share		€ 2.10									

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 4: Changes to our valuation model

	Old	New	Delta
PV of gross profits	€2,341.6M	€2,455.1M	4.8%
Costs PV	€995.4M	€1,048.7M	5.4%
PV after costs	€1,346.2M	€1,406.4M	4.5%
Contingent consideration	€39.2M	€18.3M	-53.3%
Proforma net cash	€37.6M	€128.9M	242.8%
Fair Value	€1,344.6M	€1,517.0M	12.8%
Share Count (fully diluted, PV)	672,536K	722,506K	7.4%
Fair value per share	€ 2.00	€ 2.10	5.0%

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	205,794	230,324
Costs of sales	-4,683	-12,445	-22,180	-21,355	-27,300	-32,689
Gross profit	11,190	77,175	112,950	147,667	178,494	197,634
Other income	335	790	684	435	841	400
Research and development	-15,388	-18,657	-28,882	-32,940	-36,017	-41,458
General and administrative	-4,642	-5,974	-12,221	-14,341	-20,267	-20,729
Marketing and sales	-3,035	-31,422	-34,539	-39,914	-49,115	-55,278
Operating income (EBIT)	-11,540	21,912	37,992	60,907	73,936	80,569
Net financial result	-5,996	-107,601	-37,135	-14,228	-3,939	-3,945
Pre-tax income (EBT)	-17,536	-85,689	857	46,679	69,997	76,624
Income taxes	0	9,442	24,136	-10,484	-14,174	-16,857
Minority interests	0	0	0	0	0	0
Net income / loss	-17,536	-76,247	24,993	36,195	55,822	59,767
Diluted EPS	-0.04	-0.15	0.04	0.05	0.09	0.09
EBITDA	-10,784	25,327	40,342	64,757	77,786	84,419
Ratios						
Gross margin on revenues	70.5%	86.1%	83.6%	87.4%	86.7%	85.8%
EBITDA margin on revenues	n.m.	28.3%	29.9%	38.3%	37.8%	36.7%
EBIT margin on revenues	n.m.	24.4%	28.1%	36.0%	35.9%	35.0%
Net margin on revenues	n.m.	n.m.	18.5%	21.4%	27.1%	25.9%
Expenses as % of revenues						
Cost of sales	29.5%	13.9%	16.4%	12.6%	13.3%	14.2%
Research and development	96.9%	20.8%	21.4%	19.5%	17.5%	18.0%
General and administrative	29.2%	6.7%	9.0%	8.5%	9.8%	9.0%
Marketing and sales	19.1%	35.1%	25.6%	23.6%	23.9%	24.0%
Y-Y Growth						
Revenues	46.6%	464.6%	50.8%	25.1%	21.8%	11.9%
Operating income	n.m.	n.m.	73.4%	60.3%	21.4%	9.0%
Net income/ loss	n.m.	n.m.	n.m.	44.8%	54.2%	7.1%



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	219,914	254,915
Cash and cash equivalents	31,889	58,657	80,311	66,299	169,660	198,672
Receivables	12,360	11,260	17,814	26,807	32,639	36,529
Inventories	17,941	18,334	17,315	14,467	17,614	19,714
Other current assets	0	0	0	0	0	0
Non-current assets, total	64,593	77,939	99,129	131,349	147,147	162,526
Property, plant & equipment	6,043	8,234	8,402	8,553	18,110	34,549
Right of use assets	0	0	0	5,979	6,174	6,449
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	367,060	417,441
Shareholders' equity & debt						
Current liabilities, total	51,378	60,743	82,599	110,456	56,841	63,430
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	54,567	61,071
Finance lease liabilities	263	263	263	1,946	2,006	2,091
Other financial liabilities	0	0	17,484	17,835	0	0
Longterm liabilities, total	47,938	89,337	70,219	23,787	148,922	132,031
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	4,498	4,688
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	161,297	221,980
Total consolidated equity and debt	126,783	166,190	214,569	238,922	367,060	417,441
Ratios						
Current ratio (x)	1.21	1.45	1.40	0.97	3.87	4.02
Quick ratio (x)	0.86	1.15	1.19	0.84	3.56	3.71
Net gearing	128.4%	137.9%	-13.9%	-15.9%	-25.1%	-31.2%
Book value per share (€)	0.06	0.03	0.10	0.17	0.26	0.35
Net debt	35,256	22,219	-8,586	-16,668	-40,424	-69,161
Return on equity (ROE)	-68.4%	n.a.	64.2%	43.5%	42.0%	31.2%



CASH FLOW STATEMENT

All figures in EUR '000	2016A	2017A	2018A	2019A	2020E	2021E
EBIT	-11,540	21,912	37,992	60,907	73,936	80,569
Depreciation and amortization	756	3,415	6,559	5,177	3,850	3,850
EBITDA	-10,784	25,327	44,551	66,084	77,786	84,419
Changes in working capital	642	11,099	-4,144	8,938	771	514
Interest received, taxes paid	5	3	-1,399	-2,273	-14,174	-16,857
Other	133	1,784	1,368	352	0	0
Operating cash flow	-10,004	38,213	40,376	73,101	64,382	68,076
CAPEX	-57,474	-6,045	-3,769	-32,717	-18,657	-18,039
Free cash flow	-67,478	32,168	36,607	40,384	45,726	50,038
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	-3,945
Financing cash flow	67,327	-3,255	-17,961	-54,680	57,636	-21,026
Net cash flows	-151	28,913	18,646	-14,296	103,361	29,011
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	171,928
Cash, end of the year	32,137	59,993	81,515	68,567	171,928	200,940
EBITDA/share	-0.03	0.05	0.07	0.11	0.12	0.13
Y-Y Growth						
Operating cash flow	n.m.	n.m.	5.7%	81.1%	-11.9%	5.7%
Free cash flow	n.m.	n.m.	13.8%	10.3%	13.2%	9.4%
EBITDA/share	n.m.	n.m.	45.2%	45.0%	16.3%	8.5%

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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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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.

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	16 January 2020	€1.48	Buy	€2.00
49	9 March 2020	€1.11	Buy	€2.00
50	23 April 2020	€1.34	Buy	€2.00
53	Today	€1.34	Buy	€2.10

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

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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: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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