

# Pharming Group NV

Netherlands / Biotechnology

Primary exchange: Euronext Amsterdam /

Secondary exchange: Frankfurt

Bloomberg: PHARM NA

ISIN: NL0010391025

Update

**RATING****PRICE TARGET****BUY****€ 1.90**

Return Potential

45.9%

Risk Rating

High

## RAISING PRICE TARGET AS APPROVAL CHANCES FOR PROPHYLAXIS CLIMB

The FDA has stated that it will issue a verdict on the approval of Ruconest for prophylaxis of hereditary angioedema (HAE) by 21 September. Following this news, we are bringing forward our forecast for the timing of first post-approval revenues in prophylaxis from 2019 to Q4 2018. We also lower our discount rate for future prophylaxis revenues to reflect the increased probability of approval. We now see fair value for the share at €1.90 (previously: €1.70). We maintain our Buy recommendation.

**Verdict on Ruconest approval for prophylaxis due by 21.09.2018** Pharming has announced that the SBLA (Supplemental Biologics License Application) submitted to the FDA at the end of November last year with a view to expanding Ruconest's indication in HAE from acute attacks to prophylaxis has been found by the agency to be sufficiently complete to permit a substantive review. The FDA has stated that it will issue a verdict on the approval of Ruconest for prophylaxis by 21 September.

### Ruconest position in prophylaxis benefiting from Cinryze shortage

Pharming has demonstrated Ruconest's superior efficacy relative to the market leading prophylaxis product, Shire's Cinryze (see our note of 14 September 2017). This suggests both that the FDA will grant the SBLA and that Ruconest will be able to take a substantial share of the US prophylaxis market in the medium term. We have assumed 25%. Ruconest's position in prophylaxis is being aided by the continuing shortage of Cinryze. Production of Cinryze at the Dutch contract manufacturing organisation, Sanquin, restarted in September after an interruption during the summer, but has still to reach previous levels. Meanwhile Shire has yet to confirm whether it has filed with the FDA for approval of Cinryze's successor product - SHP643 (Lanadelumab). The Cinryze shortage has prompted many physicians to prescribe Ruconest for prophylaxis off-label.

**We raise price target to €1.90 (previously: €1.70)** We previously modelled first post-approval revenues for Ruconest in prophylaxis in 2019. (p.t.o.)

## FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016	2017E	2018E
Revenue (€m)	6.84	21.19	10.83	15.87	86.72	142.27
Y-o-y growth	-35.5%	209.6%	-48.9%	46.6%	446.4%	64.1%
EBIT (€m)	-6.91	2.88	-12.83	-11.54	22.31	50.11
EBIT margin	-101.0%	13.6%	-118.5%	-72.7%	25.7%	35.2%
Net income (€m)	-15.06	-5.77	-9.96	-17.54	-30.12	42.17
EPS (diluted) (€)	-0.07	-0.02	-0.02	-0.04	-0.06	0.07
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-8.05	-3.23	-18.14	-67.48	21.39	23.65
Net gearing	-302.8%	-109.9%	-67.0%	128.4%	107.5%	19.8%
Liquid assets (€m)	16.97	34.19	31.64	31.89	55.78	79.23

## 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. Pharming and Chinese SIPI signed a collaboration agreement in 2013, which will accelerate the addition of new projects to the firm's R&D pipeline. Lead drug Ruconest received EMA approval in 2010 and FDA approval in July 2014.

## MARKET DATA

As of 17 Jan 2018

Closing Price	€ 1.30
Shares outstanding	579.01m
Market Capitalisation	€ 753.88m
52-week Range	€ 0.25 / 1.34
Avg. Volume (12 Months)	18,061,853

Multiples	2016	2017E	2018E
P/E	n.a.	n.a.	17.9
EV/Sales	50.6	9.3	5.6
EV/EBIT	n.a.	36.0	16.0
Div. Yield	0.0%	0.0%	0.0%

## STOCK OVERVIEW



## COMPANY DATA

As of 30 Sep 2017

Liquid Assets	€ 38.39m
Current Assets	€ 73.66m
Intangible Assets	€ 56.74m
Total Assets	€ 139.96m
Current Liabilities	€ 56.13m
Shareholders' Equity	€ 6.21m

## SHAREHOLDERS

G.J. Hageman	2.5%
J.E. Flynn	1.7%
Broadfin Capital Management LLC	1.6%
Kingdon Capital Management LLC	1.5%
Free float and other	92.7%



We now move this timing forward to Q4/18. We have also raised our estimate of the probability that Ruconest is approved for prophylaxis from 84% to 90% and lowered the discount rate applied to future cash flows from prophylaxis from 13% to 12%. Changes to our forecasts are shown in figure 1 below. We now see fair value for the share at €1.90 (previously: €1.70). We maintain our Buy recommendation.

**Figure 1: Changes to our forecasts**

All figures in €m	2017E			2018E		
	Old	New	Delta	Old	New	Delta
Sales	86.72	86.72	0.0%	132.64	142.27	7.3%
EBIT	22.31	22.31	0.0%	45.54	50.11	10.0%
margin	25.7%	25.7%	-	34.3%	35.2%	-
Net income	-30.12	-30.12	-	37.60	42.17	12.1%
margin	-34.7%	-34.7%	-	28.3%	29.6%	-
EPS (in €)	-0.06	-0.06	-	0.07	0.07	12.1%

Source: First Berlin Equity Research estimates

**Figure 2: 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	€86.8M	4K	€43,478	€174M	20%	€41M	60%	10%	16	-
Ruconest (US)	HAE-AA	€1,510.3M	4K	€205,950	€783M	25%	€304M	90%	10%	12	-
Ruconest (EU)	HAE-PR	€30.1M	1K	€86,957	€87M	20%	€20M	60%	12%	6	2 Years
Ruconest (US)	HAE-PR	€587.4M	1K	€463,768	€582M	25%	€215M	90%	12%	8	1 Years
PV of gross profits		€2,214.6M			€1,625M		€579M				
Costs PV		€1,006.7M									
NPV		€1,207.9M									
Net Debt (pro-forma)		€32.5M									
Fair Value		€1,175.4M									
Share Count (fully diluted, PV)		606,482K									
Fair value per share		€1.94									

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 after the point of approval

Source: First Berlin Equity Research estimates

**Figure 3: Changes to our pipeline valuation model**

	Old	New	Delta
PV of gross profits	€2,082.9M	€2,214.6M	6.3%
Costs PV	€978.0M	€1,006.7M	2.9%
NPV	€1,104.9M	€1,207.9M	9.3%
Proforma net debt	€24.7M	€32.5M	31.2%
Fair Value	€1,080.2M	€1,175.4M	8.8%
Share Count (fully diluted, PV)	639,175K	606,482K	-5.1%
Fair value per share	€1.69	€1.94	14.7%

Source: First Berlin Equity Research estimates



## INCOME STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016A	2017E	2018E
<b>Revenues</b>	<b>6,844</b>	<b>21,186</b>	<b>10,828</b>	<b>15,873</b>	<b>86,723</b>	<b>142,271</b>
Costs of sales	-1,112	-3,427	-4,800	-4,683	-13,018	-22,763
<b>Gross profit</b>	<b>5,732</b>	<b>17,759</b>	<b>6,028</b>	<b>11,190</b>	<b>73,705</b>	<b>119,508</b>
Other income	106	105	147	335	0	0
Research and development	-10,232	-11,663	-14,180	-15,388	-17,568	-23,300
General and administrative	-2,518	-3,324	-3,744	-4,642	-6,008	-7,500
Marketing and sales	0	0	-1,085	-3,035	-27,815	-38,600
<b>Operating income (EBIT)</b>	<b>-6,912</b>	<b>2,877</b>	<b>-12,834</b>	<b>-11,540</b>	<b>22,314</b>	<b>50,108</b>
Net financial income	-8,148	-8,644	2,877	-5,996	-52,434	-7,940
<b>Pre-tax income (EBT)</b>	<b>-15,060</b>	<b>-5,767</b>	<b>-9,957</b>	<b>-17,536</b>	<b>-30,120</b>	<b>42,168</b>
Income taxes	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0
<b>Net income / loss</b>	<b>-15,060</b>	<b>-5,767</b>	<b>-9,957</b>	<b>-17,536</b>	<b>-30,120</b>	<b>42,168</b>
<b>Diluted EPS</b>	<b>-0.07</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.04</b>	<b>-0.06</b>	<b>0.08</b>
<b>EBITDA</b>	<b>-5,992</b>	<b>3,915</b>	<b>-11,871</b>	<b>-10,851</b>	<b>24,362</b>	<b>52,579</b>
<b>Ratios</b>						
Gross margin on revenues	83.8%	83.8%	55.7%	70.5%	85.0%	84.0%
EBITDA margin on revenues	n.m.	18.5%	n.m.	n.m.	28.1%	37.0%
EBIT margin on revenues	n.m.	13.6%	n.m.	n.m.	25.7%	35.2%
Net margin on revenues	n.m.	n.m.	n.m.	n.m.	n.m.	29.6%
<b>Expenses as % of revenues</b>						
Cost of sales	16.2%	16.2%	44.3%	29.5%	15.0%	16.0%
Research and development	149.5%	55.1%	131.0%	96.9%	20.3%	16.4%
General and administrative	36.8%	15.7%	34.6%	29.2%	6.9%	5.3%
Marketing and sales	n.m.	n.m.	10.0%	19.1%	32.1%	27.1%
<b>Y-Y Growth</b>						
Revenues	-35.5%	209.6%	-48.9%	46.6%	446.4%	64.1%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	124.6%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.



## BALANCE SHEET

All figures in EUR '000	2013A	2014A	2015A	2016A	2017E	2018E
<b>Assets</b>						
<b>Current assets, total</b>	<b>24,599</b>	<b>49,143</b>	<b>51,092</b>	<b>62,190</b>	<b>106,078</b>	<b>161,742</b>
Cash and cash equivalents	16,968	34,185	31,643	31,889	55,779	79,225
Receivables	860	1,554	3,220	12,360	20,814	34,145
Inventories	4,763	13,404	16,229	17,941	29,486	48,372
Other current assets	2,008	0	0	0	0	0
<b>Non-current assets, total</b>	<b>6,809</b>	<b>6,575</b>	<b>6,585</b>	<b>64,593</b>	<b>67,282</b>	<b>72,472</b>
Property, plant & equipment	6,228	5,598	5,661	6,043	10,407	15,650
Long term prepayments	0	0	0	1,622	0	0
Goodwill & other intangibles	405	777	724	56,680	56,627	56,574
Other assets	176	200	200	248	248	248
<b>Total assets</b>	<b>31,408</b>	<b>55,718</b>	<b>57,677</b>	<b>126,783</b>	<b>173,360</b>	<b>234,214</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current liabilities, total</b>	<b>12,925</b>	<b>14,873</b>	<b>13,475</b>	<b>51,378</b>	<b>46,259</b>	<b>45,209</b>
Debt	0	0	3,047	26,136	16,885	885
Deferred license fee income	2,200	2,200	2,207	943	943	943
Derivative financial liabilities	4,147	4,266	953	9,982	7,354	8,973
Trade and other payables	5,812	7,781	7,005	14,054	20,814	34,145
Finance lease liabilities	766	626	263	263	263	263
<b>Longterm liabilities, total</b>	<b>13,473</b>	<b>11,002</b>	<b>20,363</b>	<b>47,938</b>	<b>91,016</b>	<b>112,371</b>
Debt	0	0	11,757	40,395	77,271	93,271
Deferred license fee income	12,222	10,022	7,808	2,270	8,672	14,227
Finance lease liabilities	1,207	965	798	599	399	199
Other liabilities	44	15	0	4,674	4,674	4,674
<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>5,010</b>	<b>29,843</b>	<b>23,839</b>	<b>27,467</b>	<b>36,085</b>	<b>76,634</b>
<b>Total consolidated equity and debt</b>	<b>31,408</b>	<b>55,718</b>	<b>57,677</b>	<b>126,783</b>	<b>173,360</b>	<b>234,214</b>
<b>Ratios</b>						
Current ratio (x)	1.90	3.30	3.79	1.21	2.29	3.58
Quick ratio (x)	1.53	2.40	2.59	0.86	1.66	2.51
Net gearing	-302.8%	-109.9%	-67.0%	128.4%	107.5%	19.8%
Book value per share (€)	0.01	0.07	0.06	0.06	0.07	0.14
Net debt	-15,171	-32,794	-15,978	35,256	38,791	15,145
Return on equity (ROE)	n.m.	-33.1%	-37.1%	-68.4%	-94.8%	74.8%



## CASH FLOW STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016A	2017E	2018E
<b>EBIT</b>	<b>-6,912</b>	<b>2,877</b>	<b>-12,834</b>	<b>-11,540</b>	<b>22,314</b>	<b>50,108</b>
Depreciation and amortization	920	1,038	963	756	2,048	2,472
<b>EBITDA</b>	<b>-5,992</b>	<b>3,915</b>	<b>-11,871</b>	<b>-10,784</b>	<b>24,362</b>	<b>52,579</b>
Changes in working capital	-552	-7,474	-5,267	642	-5,215	-13,331
Other adjustments	-1,749	986	-103	138	8,597	-7,940
<b>Operating cash flow</b>	<b>-8,293</b>	<b>-2,573</b>	<b>-17,241</b>	<b>-10,004</b>	<b>27,744</b>	<b>31,308</b>
CAPEX	241	-654	-898	-57,474	-6,358	-7,662
<b>Free cash flow</b>	<b>-8,052</b>	<b>-3,227</b>	<b>-18,139</b>	<b>-67,478</b>	<b>21,386</b>	<b>23,646</b>
<b>Debt financing, net</b>	<b>16,023</b>	<b>-682</b>	<b>15,524</b>	<b>63,635</b>	<b>-3,854</b>	<b>-200</b>
<b>Equity financing, net</b>	<b>12,178</b>	<b>19,375</b>	<b>483</b>	<b>8,825</b>	<b>6,110</b>	<b>0</b>
Other changes in cash	-5,454	-1,249	-210	-4,688	0	0
<b>Net cash flows</b>	<b>14,695</b>	<b>14,217</b>	<b>-2,342</b>	<b>294</b>	<b>23,642</b>	<b>23,446</b>
Cash, start of the year	5,273	19,968	34,185	31,843	32,137	55,779
<b>Cash, end of the year</b>	<b>19,968</b>	<b>34,185</b>	<b>31,843</b>	<b>32,137</b>	<b>55,779</b>	<b>79,225</b>
<b>EBITDA/share</b>	<b>-0.03</b>	<b>0.01</b>	<b>-0.03</b>	<b>-0.03</b>	<b>0.05</b>	<b>0.10</b>
<b>Y-Y Growth</b>						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	12.8%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	10.6%
EBITDA/share	n.m.	n.m.	n.m.	n.m.	n.m.	98.4%

**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...35	↓	↓	↓	↓
36	28 July 2017	€0.46	Buy	€1.30
37	14 September 2017	€0.47	Buy	€1.50
38	7 December 2017	€1.19	Buy	€1.70
39	Today	€1.30	Buy	€1.90

**Authored by: Simon Scholes, Analyst**

**Company responsible for preparation:**

**First Berlin Equity Research GmbH**

Mohrenstraße 34  
10117 Berlin

Tel. +49 (0)30 - 80 93 96 94 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

**Person responsible for forwarding or distributing this financial analysis: Martin Bailey**

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

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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:

**STRONG BUY:** An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

**BUY:** An expected favourable price trend of more than 25% percent.

**ADD:** An expected favourable price trend of between 0% and 25%.

**REDUCE:** An expected negative price trend of between 0% and -15%.

**SELL:** An expected negative price trend of more than -15%.

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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/>

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

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