

BUY
COMPANY UPDATE

Price (26 July 2017)	€0.49	
Changes	Previous	Current
Rating	-	BUY
Target Price	-	€0.68

Key data

Bloomberg/Reuters codes: PHARM NA / PHAR.AS	
Market cap (€m)	223
Amsterdam Stock	801
Exchange Amsterdam	
Midkap Index	
1mth perf (%)	46.0
3mths perf (%)	56.2
12mths perf (%)	108.8
12mth high-low (€)	1 - 0
Free float (%)	97

Key financials

Year to Dec	2016A	2017E	2018E
Sales (€)	15.9	62.1	73.5
EBIT adj	(11.88)	9.03	13.77
EBIT margin (%)	(74.8)	(52.1)	13.2
EPS adj	(0.0)	(0.1)	(0.0)
EV/EBITDA (x)	--	--	--
PE adj (x)	NA	NA	NA
Div yield (%)	0.0	0.0	0.0
DPS	--	--	--
FCF yield (%)	0.0	0.0	0.0
EPS adj (c)	(0.0)	(0.1)	(0.0)

Prices are as of close 27 July 2017

All sources unless otherwise stated: Company data, FactSet, Stifel estimates

Share price performance (indexed)



H117 results confirm progress and opportunity with Ruconest

Summary

H117 results confirmed Pharming's continued good progress with commercialising HAE treatment Ruconest in the US market. First-half US sales of \$30.8m compare with IMS reported sales of \$13.3m in H116 - even with the caveat this is not a proper like-for-like comparison, the magnitude of the step-up in sales performance is dramatic. In support of this, sales and marketing expenses increased significantly in Q2 to €7.2m (vs €3.9m in Q1), resulting in a modest Q2 operating profit of €0.4m (vs €3.9m in Q1). Nevertheless, with opex not expected to significantly increase in H2, we look forward to continued sales growth as a result of this investment, and have increased our FY17 US market sales forecast to \$64m (vs \$60m previously). Reiterate Buy.

Key Points

Investment driving US sales growth. Total product sales (Ruconest in US+EU+RoW) were up >600% to €30.1m in H117 vs €4.2m in H116; recall that US sales were previously recorded by ex partner Valeant and Pharming received a 30% royalty. Q2 sales in the US of \$15.3m were slightly lower than \$15.5m in Q1, but Q1 benefited from additional buying of Ruconest by specialty pharmacies to cover shortages of a competing product, Cinryze. This extra stock therefore impacted Q2 reported numbers (as did a forex headwind on weaker \$ vs €), although IMS data shows continued good underlying growth of Ruconest prescriptions (see overleaf). As such, we expect further growth in H2 and have increased our FY17 US sales target to \$64m. Similarly, total group revenues for FY17 are now higher at €62.1m vs €55.6m previously.

Step-up in selling costs, but now US operations 'right-sized'. The +85% increase in sales and marketing costs in Q2 vs Q1 was significantly more than we had anticipated and the company is guiding that the €7.2m spend in Q2 is the new run-rate. We have increased our sales forecast for FY17 to €25.6m vs €16.5m previously; and our FY18e forecast is now €28.4m vs €22.3m previously. R&D and G&A costs in Q2, of €4.5m and €1.3m respectively, were in line with the Q1 run rate and our FY17 numbers are largely unchanged. Nevertheless, the jump in sales costs is such that our operating profit estimate for FY17 is lowered to €5.7m vs €9.1m previously. The company now has a US sales team of 40 people (reps, MSLs, managers, etc), compared to just 10-15 people within the Valeant marketing team, which it believes is the right size to drive sales growth.

Orbimed \$100m loan cleans up debt structure and removes large warrant overhang. As previously announced, Pharming has secured a \$100m loan from healthcare specialist investor Orbimed, to eliminate: (a) €35.9m amortising convertible bond, (b) €40m senior debt (Kreos/SVB), (c) 115m in potential shares (24% dilution) to be issued, and (d) €16m cash burn in FY17 and €8m in 2018 which would have been required to meet debt/amortising bond repayments. The current potential dilution is around 24% from c. 77m in existing warrants (9.2m were issued to Orbimed) and 41.5m in the 'ordinary' €11.8m convertible bond.

Reiterate Buy with €0.68 PT. The increased FY17 sales estimate for Ruconest (FY18 onwards unchanged) is offset by the additional sales and marketing costs through H2. Our rNPV of Ruconest is therefore largely unaffected. Our long-term forecasts include the potential use of the product in the prophylactic setting, on the basis of positive Phase II results - an FDA meeting to discuss next steps is expected in Q3/Q4.

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All relevant disclosures and certifications appear on pages 5 - 7 of this report.

Key data¹

Key valuation ratios (x)				
	2016A	2017E	2018E	2019E
PE adj (x)	NA	NA	NA	8.9
ROCE (% incl. gross goodwill)	(0.6)	(5.6)	(0.3)	0.5
Div yield (%)	0.0	0.0	0.0	0.0
Key profit and loss data (€)				
	2016A	2017E	2018E	2019E
Sales (€)	15.9	62.1	73.5	114.4
EBITDA adj	(11.1)	12.3	17.1	48.8
EBIT adj	(11.88)	9.03	13.77	45.52
EBIT adj margin (%)	(74.8)	14.5	18.7	39.8
Net income	(17.9)	(41.3)	(3.1)	29.4
EPS adj (c)	(0.0)	(0.1)	(0.0)	0.1
DPS (c)	--	--	--	--
Key cash flow data (€)				
	2016A	2017E	2018E	2019E
Operating profit	(11.9)	(32.4)	9.7	41.1
Depreciation	0.0	0.0	0.0	0.0
Other	0	0	0	0
Operating cash flow	(10.1)	4.4	17.9	48.9
Taxes paid	0	0	0	0
Net interest	0.0	(8.9)	(12.8)	(11.7)
Capex	(1.2)	(2.2)	(2.0)	(1.8)
Free cash flow	(11.3)	(6.7)	3.1	35.4
Dividends	--	--	--	--
Change in cash	(58)	(7)	3	17
Net debt	34.6	57.0	34.8	18.1
Key balance sheet (€)				
	2016A	2017E	2018E	2019E
Intangible assets	57	55	50	45
PPE	6	7	7	7
Cash	32	33	52	34

Key information

Target price methodology/risks

Our €0.68 per share target price is based on a risk-adjusted product-based NPV valuation.

Risks to the investment include Pharming's ability to successfully execute the US promotional strategy on Ruconest, and that market acceptance may be lower than expected (or unforeseen safety and efficacy issues impact Ruconest). Competition may also increase (new prophylactic treatments), and the increasing tendency of health insurers to reduce costs and reimbursement may provide additional headwind to Ruconest commercialisation.

Business description

Pharming is a Dutch biotechnology company with a platform technology for producing recombinant proteins in rabbit milk. The company's lead product, Ruconest, is approved in Europe and the US for the treatment of hereditary angioedema (HAE).

Senior management

Chairman - Jaap Blaak

Chief Executive Officer - Sijmen de Vries

Chief Operating Officer - Bruno Giannetti

Chief Financial Officer - Robin Wright

Key dates

26 October 2017 - 9M17 results

Major shareholders

Kingdon Capital Management - 1.80%

Website

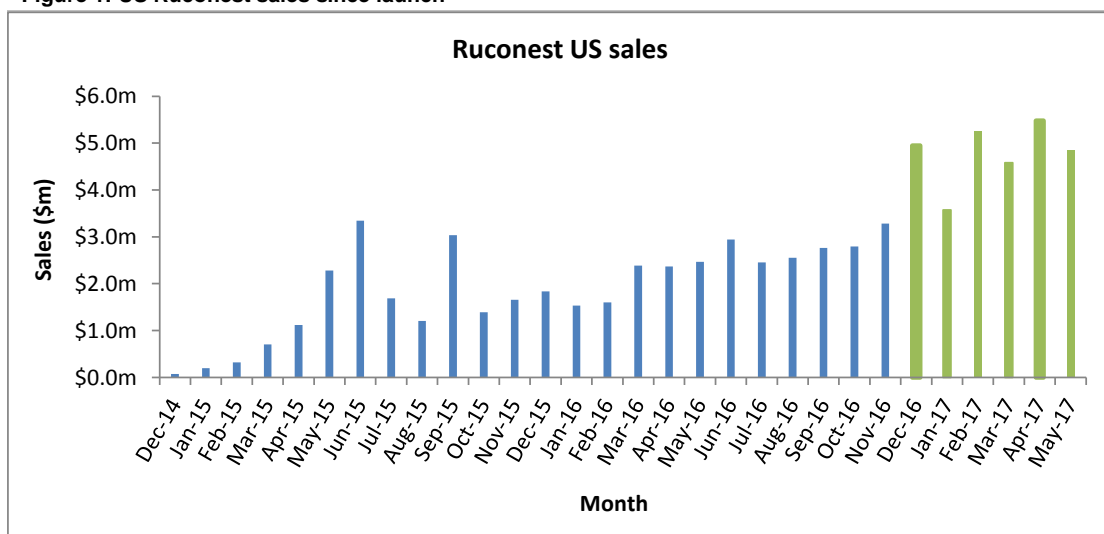
<http://www.pharming.com/>

¹ Year end December

Data in millions, except per share and percentages
Source: Company data, FactSet, Stifel estimates

Ruconest US sales

Figure 1: US Ruconest sales since launch



Source: IMS data (in-market sales)
(Green bars = sales since Pharming regained US rights from Valeant)

Figure 2: Pharming P&L (2016A - 2020E)

Year to 31 December	2016A	2017E	2018E	2019E	2020E
€m					
License fees	2.2	1.1	0.8	0.8	0.8
Milestones	0.0	0.0	0.0	0.0	0.0
Product sales and royalties	13.7	61.0	72.7	113.6	163.6
Total sales	15.9	62.1	73.5	114.4	164.4
%ch	47%	291%	18%	56%	44%
COGS %	29.5%	11.5%	10.5%	10.0%	10.0%
COGS	(4.7)	(7.1)	(7.7)	(11.4)	(16.4)
Gross profit	11.2	55.0	65.8	103.0	148.0
General and admin	(4.6)	(1.9)	(2.4)	(2.9)	(3.7)
Marketing and sales	(3.0)	(25.6)	(28.4)	(34.3)	(49.3)
R&D	(15.4)	(18.5)	(21.3)	(20.2)	(18.2)
Amortisation	0.0	(3.3)	(3.3)	(3.3)	(3.3)
Other	0.3	0.0	0.0	0.0	0.0
Operating profit	(11.5)	5.7	10.5	42.2	73.5
Operating margins	-72.7%	9.2%	14.2%	36.9%	44.7%
Net interest	(6.0)	(8.9)	(12.8)	(11.7)	(7.6)
Exceptionals		(41.4)	(4.0)	(4.4)	(3.2)
PBT	(17.5)	(44.6)	(6.4)	26.1	62.7
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Taxation	0	0	0	0	0
Profit after tax	(17.5)	(44.6)	(6.4)	26.1	62.7
Ratios					
EBITDA	(10.8)	9.0	13.8	45.5	76.8
GP	70.5%	88.5%	89.5%	90.0%	90.0%
SG&A	29.2%	3.0%	3.2%	2.6%	2.2%
R&D	96.9%	29.8%	28.9%	17.7%	11.1%
Operating Profit	-72.7%	9.2%	14.2%	36.9%	44.7%
Shares	416	488	525	537	550
EPS (€)	(0.04)	(0.09)	(0.01)	0.05	0.11
adj. EPS (pre-amortisation)	(0.04)	(0.08)	(0.01)	0.05	0.12
DPS (€)	0.0	0.0	0.0	0.0	0.0

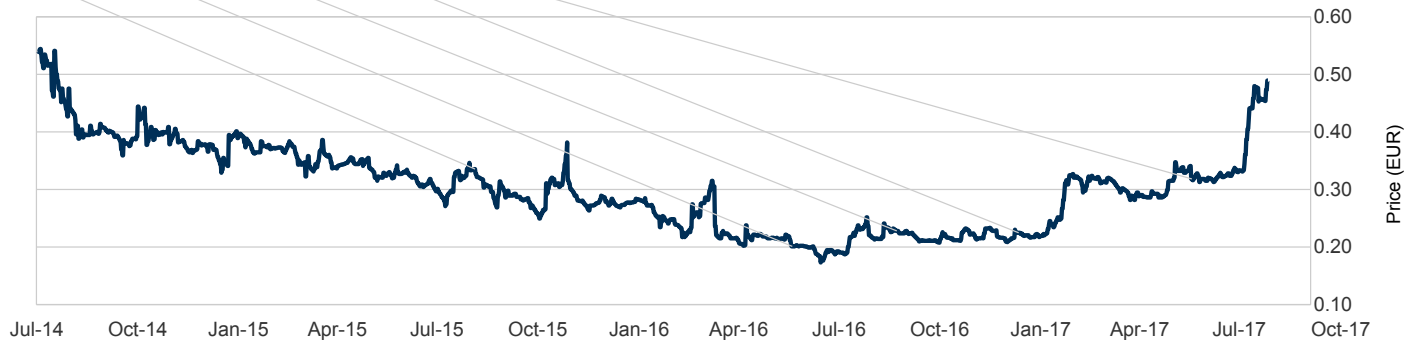
Source: Company data; Stifel estimates

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Pharming Group N.V. (PHARM.NA) as of July 26, 2017 (in EUR)

08/03/2015 €0.34 I:B:€0.88	05/18/2016 €0.20 B:€0.71*	08/22/2016 €0.23 SU*:NA	12/09/2016 €0.22 B*:€0.66	05/17/2017 €0.32 B:€0.68*
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*Represents the value(s) that changed.

B=Buy; H=Hold; S=Sell; NR=Not Rated; SU=Suspended; D=Discontinued; I=Initiation

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For a price chart with our ratings and any applicable target price changes for PHARM.NA go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=PHARM.NA>

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