

Pharming Group NV

Netherlands / Biotechnology

Primary exchange: Euronext Amsterdam /

Secondary exchange: Frankfurt

Bloomberg: PHARM NA

ISIN: NL0010391025

FY 2016 results

RATING**PRICE TARGET****BUY****€ 1.20**

Return Potential

287.1%

Risk Rating

High

STRONG START FOR OWN SALES EFFORT IN THE US

Pharming has published preliminary FY2016 results. Sales rose 46.5% to €15.9m (FBe: €12.9m; 2015: €10.8m), while the operating result improved to €-11.5m (FBe: €-12.2m; 2015: €-12.8m). Sales were above both our and consensus expectations (also €12.9m) mainly because of strong Q4 sales of Ruconest in the US. Pharming announced in December that the annual run rate for US Ruconest sales averaged over USD40m in October and November. We estimate that this figure exceeded USD50m in December. Our 2017 US Ruconest sales forecast incorporates an annual run rate of close to USD50m but we had not expected Ruconest to reach this sales level in the US as early as December. However, we will wait for evidence that sales at this level are sustainable before raising our forecasts. For the time being, our price target remains at €1.20 and we maintain our Buy recommendation.

Ruconest annual sales run rate over USD50m in December On 8 December Pharming announced that it had completed the acquisition of the US marketing rights to Ruconest from Valeant. Up until 8 December Pharming booked a 30% royalty on US Ruconest revenues in its sales figure. Since 8 December it has been booking 100% of Ruconest revenues in its sales figure. US Ruconest revenue reached €6.0m in Q4/16 (Q4/15: €1.2m) compared with €5.8m for the first nine months of the year and €2.3m during Q3/16. The annual run rate for US Ruconest revenues averaged over USD40m during October and November - up from USD35m in Q3/16. On the basis of the full Q4/16 figures, we estimate that this figure clearly exceeded USD50m during December.

Larger direct marketing footprint helping Ruconest sales in Europe Sales of Ruconest in Europe were €1.9m (FY/15: €2.3m). Last year's sales number was adversely impacted by a stock adjustment by European marketing partner, SOBI, in Q1/16. However, sales have moved ahead since then - from €0.5m in Q2/16 to €0.6m in Q3/16 and €0.4m in Q4/16 - helped by the July amendment to the distribution agreement with SOBI (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016	2017E	2018E
Revenue (€m)	6.84	21.19	10.83	15.87	51.10	69.30
Y-o-y growth	-35.5%	209.6%	-48.9%	46.6%	221.9%	35.6%
EBIT (€m)	-6.91	2.88	-12.83	-11.54	10.44	15.65
EBIT margin	-101.0%	13.6%	-118.5%	-72.7%	20.4%	22.6%
Net income (€m)	-15.06	-5.77	-9.96	-17.54	5.67	11.53
EPS (diluted) (€)	-0.07	-0.02	-0.02	-0.04	0.01	0.03
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-8.05	-3.23	-18.14	-67.48	2.84	9.08
Net gearing	-302.8%	-109.9%	-67.0%	128.4%	16.7%	-2.6%
Liquid assets (€m)	16.97	34.19	31.64	31.89	32.49	23.85

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 from the milk of genetically modified rabbits. 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 09 Mar 2017

Closing Price	€ 0.31
Shares outstanding	476.31m
Market Capitalisation	€ 147.66m
52-week Range	€ 0.17 / 0.33
Avg. Volume (12 Months)	3,830,579

Multiples	2016	2017E	2018E
P/E	-7.4	24.9	12.3
EV/Sales	11.5	3.6	2.6
EV/EBIT	-15.9	17.5	11.7
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2016

Liquid Assets	€ 31.89m
Current Assets	€ 62.19m
Intangible Assets	€ 56.68m
Total Assets	€ 126.78m
Current Liabilities	€ 51.38m
Shareholders' Equity	€ 27.47m

SHAREHOLDERS

Kingdon Capital Management LLC	3.1%
Free Float	96.9%



The amended agreement allows Pharming to market Ruconest directly to an additional 21 countries including France, Spain, Switzerland and the UK.

FY/16 gross margin at 70.5% (FY/15: 55.7%) due to sales mix shift to US Pharming's FY/16 gross profit of €11.2m (FY/15 €6.0m) was €2.7m ahead of our forecast of €8.5m due to better than expected revenue development. The gross margin came in at 70.5% and benefited from a shift in mix towards more profitable US sales. R&D costs (+8.5% to €15.4m) and G+A costs (+24.0% to €4.6m) both rose at a slower pace than sales. However, a 180% rise in marketing costs reflecting expanded direct commercialisation activities to France, the UK and the US meant that the operating loss narrowed relatively modestly to €11.5m (FY/15:€12.8m). The net result, on the other hand, widened to €17.5m (FY/15: €10.0m) because of lower gains on the revaluation of derivatives (€0.1m vs. €3.4m) and an increase in net financing expense to €6.0m (FY/15: €0.5m) in connection with the acquisition of the US marketing rights to Ruconest.

Figure 1: Q4/16 and FY/16 results versus our forecasts

All figures in €m	Q4-16A	Q4-16E	Delta	Q4-15A	Delta	12M-2016A	12M-2015A	Delta
Sales	7.18	4.18	71.8%	2.34	206.3%	15.87	10.83	46.5%
EBIT	-2.15	-2.85	-	-3.76	-	-11.54	-12.83	-
margin	neg.	neg.	-	neg.	-	neg.	neg.	-
Net income	-7.10	-3.10	-	-4.06	-	-17.54	-9.96	-
margin	neg.	neg.	-	neg.	-	neg.	neg.	-
EPS (in €)	-0.008	-0.005	-	-0.010	-	-0.042	-0.024	-

* Total sales including other operating income such as milestone payments

Source: First Berlin Equity Research estimates, Pharming Group NV

Discussions with FDA on next steps towards Ruconest approval for HAE prophylaxis

Full results of the phase II study of Ruconest in prophylaxis of HAE were presented last November at the Annual Scientific Meeting of the American College of Allergy, Asthma and Immunology in San Francisco. On a per protocol basis, 57% of patients on a once weekly regimen of Ruconest experienced a reduction of over 50% in attack frequency while the figure for twice weekly dosing came in at 97%. Pharming is currently in discussions with the FDA on further steps towards approval of Ruconest for prophylaxis of HAE. We expect a phase III study to begin before the end of this year. Results are likely to be available in 2017 and first revenues before the end of this decade are realistic. The US market for prophylaxis of HAE is expected to be worth USD800m in 2017 (up from USD500m in 2014).

Conversion of amortising bond credited against repayment instalments Conversion into shares of the €45m of amortising bonds issued as part of the financing for the Valeant transaction has amounted to €6.1m so far this year. The conversions have entailed the issue of 20.273m new shares and were also credited against the first two cash instalments - each of €2.8m - due on the amortising bond. Total cash payments made in connection with the first two instalments amounted to only €0.1m.

We maintain our Buy recommendation and price target of €1.20 On the basis of the Q4/16 Ruconest sales number of €6.0m, we estimate that the annual run rate for US Ruconest sales exceeded USD50m in December compared with an average of ca. USD40m in October and November. Our 2017 US Ruconest sales forecast incorporates an annual run rate of close to USD50m but we had not expected Ruconest to reach this sales level in the US as early as December. However, we will wait for evidence that sales at this level are sustainable before raising our forecasts. For the time being, we are leaving our forecasts for 2017 and subsequent years largely unchanged. Our price target remains at €1.20 and we maintain our Buy recommendation.

**Figure 2: Pipeline valuation**

Compound	Project ¹⁾	Present Value	Patient Pop	Treatment Cost	Market Size	Market Share	Peak Sales	PACME Margin ²⁾	Discount Factor	Patent Life ³⁾	Time to Market
Ruconest (EU)	HAE-AA	€114.9M	4K	€90,909	€318M	20%	€79M	61%	0%	15	-
Ruconest (US)	HAE-AA	€1,221.4M	5K	€136,364	€727M	25%	€378M	86%	10%	12	-
Ruconest (EU)	HAE-PR	€48.8M	1K	€272,727	€250M	20%	€62M	61%	5%	6	3 Years
Ruconest (US)	HAE-PR	€479.9M	2K	€409,091	€636M	25%	€401M	86%	15%	7	3 Years
PACME PV		€1,865.0M			€1,932M		€920M				
Costs PV⁴⁾		€992.8M									
NPV		€872.1M									
Milestones PV		-€26.9M									
Net Cash (pro-forma)		€0.8M									
Fair Value		€846.0M									
Share Count (fully diluted)		728,927K									
Fair value per share		€1.16									

1) A project typically refers to a specific indication or, where necessary or relevant, a combination between indication and geographic market

2) PACME (Profit After Costs and Marketing Expenses) reflects the company's profit share on future revenues.

This share may be derived in the form of royalties (outsourced marketing/manufacturing) or operating EBITDA margin (in-house model), or some mix of both (depending on the specific parameters of partnership agreements)

3) Remaining patent life after the point of approval

4) Includes company-level R&D, G&A, Financing Costs and CapEx; COGS and S&M are factored into the PACME margin for each project

*) Combined PV of R&D projects DGF and AMI due to lower priority of the two projects

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016A	2017E	2018E
Revenues	6,844	21,186	10,828	15,873	51,100	69,300
Costs of sales	-1,112	-3,427	-4,800	-4,683	-7,665	-10,395
Gross profit	5,732	17,759	6,028	11,190	43,435	58,905
Other income	106	105	147	335	0	0
Research and development	-10,232	-11,663	-14,180	-15,388	-22,500	-29,000
General and administrative	-2,518	-3,324	-3,744	-4,642	-7,000	-8,500
Marketing and sales	0	0	-1,085	-3,035	-3,500	-5,750
Operating income (EBIT)	-6,912	2,877	-12,834	-11,540	10,435	15,655
Net financial income	-8,148	-8,644	2,877	-5,996	-4,766	-4,127
Pre-tax income (EBT)	-15,060	-5,767	-9,957	-17,536	5,669	11,528
Income taxes	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0
Net income / loss	-15,060	-5,767	-9,957	-17,536	5,669	11,528
Diluted EPS	-0.07	-0.02	-0.02	-0.04	0.01	0.03
EBITDA	-5,992	3,915	-11,871	-10,851	11,663	16,886
Ratios						
Gross margin on revenues	83.8%	83.8%	55.7%	70.5%	85.0%	85.0%
EBITDA margin on revenues	n.m.	18.5%	n.m.	n.m.	22.8%	24.4%
EBIT margin on revenues	n.m.	13.6%	n.m.	n.m.	20.4%	22.6%
Net margin on revenues	n.m.	n.m.	n.m.	n.m.	11.1%	16.6%
Expenses as % of revenues						
Cost of sales	16.2%	16.2%	44.3%	29.5%	15.0%	15.0%
Research and development	149.5%	55.1%	131.0%	96.9%	44.0%	41.8%
General and administrative	36.8%	15.7%	34.6%	29.2%	13.7%	12.3%
Marketing and sales	n.m.	n.m.	10.0%	19.1%	6.8%	8.3%
Y-Y Growth						
Revenues	-35.5%	209.6%	-48.9%	46.6%	221.9%	35.6%
Operating income	n.m.	n.m.	n.m.	n.m.	n.m.	50.0%
Net income/ loss	n.m.	n.m.	n.m.	n.m.	n.m.	103.4%



BALANCE SHEET

All figures in EUR '000	2013A	2014A	2015A	2016A	2017E	2018E
Assets						
Current assets, total	24,599	49,143	51,092	62,190	66,726	66,119
Cash and cash equivalents	16,968	34,185	31,643	31,889	32,489	23,846
Receivables	860	1,554	3,220	12,360	12,775	17,325
Inventories	4,763	13,404	16,229	17,941	21,462	24,948
Other current assets	2,008	0	0	0	0	0
Non-current assets, total	6,809	6,575	6,585	64,593	65,051	65,831
Property, plant & equipment	6,228	5,598	5,661	6,043	8,176	9,009
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
Total assets	31,408	55,718	57,677	126,783	131,777	131,950
Shareholders' equity & debt						
Current liabilities, total	12,925	14,873	13,475	51,378	40,528	33,491
Debt	0	0	3,047	26,136	20,338	11,758
Deferred license fee income	2,200	2,200	2,207	943	943	943
Derivative financial liabilities	4,147	4,266	953	9,982	6,209	3,202
Trade and other payables	5,812	7,781	7,005	14,054	12,775	17,325
Finance lease liabilities	766	626	263	263	263	263
Longterm liabilities, total	13,473	11,002	20,363	47,938	31,840	21,702
Debt	0	0	11,757	40,395	21,657	9,899
Deferred license fee income	12,222	10,022	7,808	2,270	5,110	6,930
Finance lease liabilities	1,207	965	798	599	399	199
Other liabilities	44	15	0	4,674	4,674	4,674
Minority interests	0	0	0	0	0	0
Shareholders equity	5,010	29,843	23,839	27,467	59,408	76,756
Total consolidated equity and debt	31,408	55,718	57,677	126,783	131,777	131,950
Ratios						
Current ratio (x)	1.90	3.30	3.79	1.21	1.65	1.97
Quick ratio (x)	1.53	2.40	2.59	0.86	1.12	1.23
Net gearing	-302.8%	-109.9%	-67.0%	128.4%	16.7%	-2.6%
Book value per share (€)	0.01	0.07	0.06	0.06	0.13	0.17
Net cash	-15,171	-32,794	-15,978	35,256	9,920	-1,975
Return on equity (ROE)	n.m.	-33.1%	-37.1%	-68.4%	13.1%	16.9%



CASH FLOW STATEMENT

All figures in EUR '000	2013A	2014A	2015A	2016A	2017E	2018E
EBIT	-6,912	2,877	-12,834	-11,540	10,435	15,655
Depreciation and amortization	920	1,038	963	756	1,228	1,231
EBITDA	-5,992	3,915	-11,871	-10,784	11,663	16,886
Changes in working capital	-552	-7,474	-5,267	642	-753	-1,666
Other adjustments	-1,749	986	-103	138	-4,766	-4,127
Operating cash flow	-8,293	-2,573	-17,241	-10,004	6,144	11,094
CAPEX	241	-654	-898	-57,474	-3,308	-2,011
Free cash flow	-8,052	-3,227	-18,139	-67,478	2,836	9,082
Debt financing, net	16,023	-682	15,524	63,635	-24,736	-20,538
Equity financing, net	12,178	19,375	483	8,825	22,500	2,813
Other changes in cash	-5,454	-1,249	-210	-4,688	-248	0
Net cash flows	14,695	14,217	-2,342	294	352	-8,643
Cash, start of the year	5,273	19,968	34,185	31,843	32,137	32,489
Cash, end of the year	19,968	34,185	31,843	32,137	32,489	23,846
EBITDA/share	-0.03	0.01	-0.03	-0.03	0.03	0.04
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	80.6%
Free cash flow	n.m.	n.m.	n.m.	n.m.	n.m.	220.3%
EBITDA/share	n.m.	n.m.	n.m.	n.m.	n.m.	44.8%

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...32	↓	↓	↓	↓
33	7 October 2016	€0.22	Buy	€1.40
34	28 October 2016	€0.22	Buy	€1.40
35	21 December 2016	€0.22	Buy	€1.20
36	Today	€0.31	Buy	€1.20

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