

# Pharming Group NV

Netherlands / Biotechnology  
 Primary exchange: Euronext Amsterdam /  
 Secondary exchange: Frankfurt  
 Bloomberg: PHARM NA  
 ISIN: NL0010391025

Q1 results

**RATING** **BUY**  
**PRICE TARGET** **€ 2.00**  
 Return Potential 50.0%  
 Risk Rating High

## ROBUST U.S. SALES MASKED BY WEAK DOLLAR, SLOW EUROPE

Q1/18 sales and EBIT of €29.5m (FBe: €32.0m; Q1/17: €15.5m) and €8.2m (FBe: €10.2m; Q1/17: €3.9m) were respectively 7.9% and 19.5% below our forecasts. The shortfall versus our projections was mainly due to the vagaries of timing of product shipments in Europe and the strength of the Euro which depressed the group's gross margin. U.S. sales rose 1.5% in US dollar terms in Q1/18 relative to Q4/17. This is a good performance given the easing of the shortage of competitors' prophylaxis products by the beginning of the year. Although Q1/18 was weaker than we expected, the underlying strength of Pharming's U.S. business, the recent appreciation of the U.S. Dollar and the normalisation of sales in Europe suggest there is scope to make up ground lost during the first quarter during the remainder of the year. We are leaving our forecasts unchanged and maintain our Buy recommendation and price target of €2.00.

**U.S. Ruconest sales rose in local currency** Pharming's Q1/18 report showed a 90.7% increase in sales to €29.5m (FBe: €32.0m; Q1/17: €15.5m) while EBIT jumped 112.1% to €8.2m (FBe: €10.2m; Q1/17: €3.9m). While the y-o-y comparison is impressive, the market was more strongly focused on performance relative to Q4/17 in which Pharming's numbers benefited from shortages of competitors' prophylaxis products. Q1/18 revenue was 10.4% below the Q4/17 number of €32.9m and 7.9% below our forecast (see figure 1 overleaf). Sales in the U.S. moved 1.5% ahead in local currency to USD34.3m (Q4/17: USD33.8m) - a good performance given that the shortage of competitors' prophylaxis products (Shire's Cinyze and CSL Behring's Haegarda) had eased by the beginning of the first quarter. However, the strengthening of the average EURUSD exchange rate from 1.18 in Q4/17 to 1.23 in Q1/18 meant that U.S. revenues were lower in Euro terms. We estimate this decline at 2.7%. This means that Europe was responsible for over half of the decline in sales between Q4/17 and Q1/18. We gather the fall in sales in Europe relates to the timing of product shipments.

### FINANCIAL HISTORY & PROJECTIONS

|                    | 2014    | 2015    | 2016   | 2017   | 2018E  | 2019E  |
|--------------------|---------|---------|--------|--------|--------|--------|
| Revenue (€m)       | 21.19   | 10.83   | 15.87  | 89.62  | 146.00 | 188.66 |
| Y-o-y growth       | 209.6%  | -48.9%  | 46.6%  | 464.6% | 62.9%  | 29.2%  |
| EBIT (€m)          | 2.88    | -12.83  | -11.54 | 21.91  | 52.33  | 70.58  |
| EBIT margin        | 13.6%   | -118.5% | -72.7% | 24.4%  | 35.8%  | 37.4%  |
| Net income (€m)    | -5.77   | -9.96   | -17.54 | -79.96 | 44.39  | 64.75  |
| EPS (diluted) (€)  | -0.02   | -0.02   | -0.04  | -0.16  | 0.07   | 0.11   |
| DPS (€)            | 0.00    | 0.00    | 0.00   | 0.00   | 0.00   | 0.00   |
| FCF (€m)           | -3.23   | -18.14  | -67.48 | 32.17  | 52.54  | 65.72  |
| Net gearing        | -109.9% | -67.0%  | 128.4% | 116.5% | -49.0% | -72.9% |
| Liquid assets (€m) | 34.19   | 31.64   | 31.89  | 58.66  | 89.24  | 132.99 |

### 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 May 2018

|                         |               |
|-------------------------|---------------|
| Closing Price           | € 1.33        |
| Shares outstanding      | 601.70m       |
| Market Capitalisation   | € 802.07m     |
| 52-week Range           | € 0.31 / 1.56 |
| Avg. Volume (12 Months) | 21,955,320    |

| Multiples  | 2017 | 2018E | 2019E |
|------------|------|-------|-------|
| P/E        | n.a. | 18.0  | 12.3  |
| EV/Sales   | 9.1  | 5.6   | 4.3   |
| EV/EBIT    | 37.4 | 15.7  | 11.6  |
| Div. Yield | 0.0% | 0.0%  | 0.0%  |

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Mar 2018

|                      |           |
|----------------------|-----------|
| Liquid Assets        | € 58.46m  |
| Current Assets       | € 94.44m  |
| Intangible Assets    | € 56.27m  |
| Total Assets         | € 170.68m |
| Current Liabilities  | € 59.12m  |
| Shareholders' Equity | € 31.61m  |

### SHAREHOLDERS

|                             |       |
|-----------------------------|-------|
| FMR LLC                     | 3.1%  |
| Polar Capital Partners Ltd. | 3.1%  |
| Hagemann G.J.               | 2.4%  |
| Flynn J.E.                  | 1.7%  |
| Free float and other        | 89.7% |

**Figure 1: Q1/17 results versus our forecasts**

| All figures in €m | Q1 18A | Q1 18E | Delta  | Q1 17A | Delta  |
|-------------------|--------|--------|--------|--------|--------|
| Sales             | 29.48  | 32.00  | -7.9%  | 15.46  | 90.7%  |
| EBIT              | 8.21   | 10.20  | -19.5% | 3.87   | 112.1% |
| margin            | 27.8%  | 31.9%  | -      | neg.   | -      |
| Net income        | 3.33   | 6.50   | -48.8% | -5.75  | n.m.   |
| margin            | neg.   | neg.   | -      | neg.   | -      |
| EPS (in €)        | 0.006  | 0.012  | -48.8% | -0.012 | n.m.   |

Source: First Berlin Equity Research estimates, Pharming Group NV

**Impact of currency on gross margin** The strengthening of the average EURUSD rate also had a negative effect on the gross margin in Q1/18 because the cost of goods sold in the US is primarily denominated in Euros. The Q1/18 gross margin came in at 83.0% (FBe: 84.4%) vs. 86.2% in Q4/17. EBIT was €8.2m (FBe: €10.2m Q1/17: €3.9m). The financial result benefited from the ongoing conversion of bonds and exercise of warrants which reduced non-cash financing expenses. In consequence, net profit was positive for the first time since Q4/14.

**Clinical plans and timelines for pipeline projects to be outlined on 21 June** Pharming will be holding a Capital Markets Briefing on 21 June. At the briefing Pharming will set out clinical plans and timelines for its pipeline projects in Pompe, Fabry and delayed graft function as well as details of investigator-sponsored trials in other indications. As we pointed out in our study of 8 May, we are particularly optimistic about Pharming's prospects in Pompe. Management has also announced that clinical trials of new forms of Ruconest administered through smaller, more convenient subcutaneous and intramuscular injections will take place soon.

**We maintain our Buy recommendation and price target of €2.00** Although Q1/18 was weaker than we expected, the underlying strength of Pharming's U.S. business, the recent strengthening of the US Dollar and a normalisation of sales in Europe suggest there is scope to make up the shortfall in revenues and profits during the remainder of the year. We are leaving our forecasts unchanged and maintain our Buy recommendation and price target of €2.00.

**Figure 2: Valuation model**

| 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                | €105.5M       | 4K          | € 41,667       | €167M       | 20%          | €39M       | 60%          | 10%             | 16                        | -              |
| Ruconest (US)                   | HAE-AA                | €1,366.9M     | 4K          | € 197,368      | €789M       | 25%          | €306M      | 90%          | 10%             | 12                        | -              |
| Ruconest (EU)                   | HAE-PR                | €30.8M        | 1K          | € 83,333       | €83M        | 20%          | €20M       | 60%          | 12%             | 6                         | 2 Years        |
| Ruconest (US)                   | HAE-PR                | €848.0M       | 2K          | € 444,444      | €693M       | 25%          | €271M      | 9%           | 12%             | 8                         | 1 Years        |
| PV of gross profits             |                       | €2,351.2M     |             |                | €1,733M     |              | €636M      |              |                 |                           |                |
| Costs PV                        |                       | €1,023.4M     |             |                |             |              |            |              |                 |                           |                |
| PV after costs                  |                       | €1,327.8M     |             |                |             |              |            |              |                 |                           |                |
| Contingent consideration        |                       | €28.3M        |             |                |             |              |            |              |                 |                           |                |
| Net Debt (pro-forma)            |                       | €1.9M         |             |                |             |              |            |              |                 |                           |                |
| Fair Value                      |                       | €1,297.6M     |             |                |             |              |            |              |                 |                           |                |
| Share Count (fully diluted, PV) |                       | 649,198K      |             |                |             |              |            |              |                 |                           |                |
| 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 after the point of approval

Source: First Berlin Equity Research estimates



## INCOME STATEMENT

| All figures in EUR '000          | 2014A         | 2015A          | 2016A          | 2017A          | 2018E          | 2019E          |
|----------------------------------|---------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenues</b>                  | <b>21,186</b> | <b>10,828</b>  | <b>15,873</b>  | <b>89,620</b>  | <b>146,000</b> | <b>188,662</b> |
| Costs of sales                   | -3,427        | -4,800         | -4,683         | -12,445        | -19,390        | -23,750        |
| <b>Gross profit</b>              | <b>17,759</b> | <b>6,028</b>   | <b>11,190</b>  | <b>77,175</b>  | <b>126,610</b> | <b>164,912</b> |
| Other income                     | 105           | 147            | 335            | 790            | 149            | 0              |
| Research and development         | -11,663       | -14,180        | -15,388        | -18,657        | -22,237        | -30,186        |
| General and administrative       | -3,324        | -3,744         | -4,642         | -5,974         | -8,107         | -9,433         |
| Marketing and sales              | 0             | -1,085         | -3,035         | -31,422        | -44,085        | -54,712        |
| <b>Operating income (EBIT)</b>   | <b>2,877</b>  | <b>-12,834</b> | <b>-11,540</b> | <b>21,912</b>  | <b>52,330</b>  | <b>70,581</b>  |
| Net financial result             | -8,644        | 2,877          | -5,996         | -111,311       | -7,940         | -5,833         |
| <b>Pre-tax income (EBT)</b>      | <b>-5,767</b> | <b>-9,957</b>  | <b>-17,536</b> | <b>-89,399</b> | <b>44,390</b>  | <b>64,748</b>  |
| Income taxes                     | 0             | 0              | 0              | 9,442          | 0              | 0              |
| Minority interests               | 0             | 0              | 0              | 0              | 0              | 0              |
| <b>Net income / loss</b>         | <b>-5,767</b> | <b>-9,957</b>  | <b>-17,536</b> | <b>-79,957</b> | <b>44,390</b>  | <b>64,748</b>  |
| <b>Diluted EPS</b>               | <b>-0.02</b>  | <b>-0.02</b>   | <b>-0.04</b>   | <b>-0.16</b>   | <b>0.07</b>    | <b>0.11</b>    |
| <b>EBITDA</b>                    | <b>3,915</b>  | <b>-11,871</b> | <b>-10,784</b> | <b>25,327</b>  | <b>54,865</b>  | <b>72,889</b>  |
| <b>Ratios</b>                    |               |                |                |                |                |                |
| Gross margin on revenues         | 83.8%         | 55.7%          | 70.5%          | 86.1%          | 86.7%          | 87.4%          |
| EBITDA margin on revenues        | 18.5%         | n.m.           | n.m.           | 28.3%          | 37.6%          | 38.6%          |
| EBIT margin on revenues          | 13.6%         | n.m.           | n.m.           | 24.4%          | 35.8%          | 37.4%          |
| Net margin on revenues           | n.m.          | n.m.           | n.m.           | n.m.           | 30.4%          | 34.3%          |
| <b>Expenses as % of revenues</b> |               |                |                |                |                |                |
| Cost of sales                    | 16.2%         | 44.3%          | 29.5%          | 13.9%          | 13.3%          | 12.6%          |
| Research and development         | 55.1%         | 131.0%         | 96.9%          | 20.8%          | 15.2%          | 16.0%          |
| General and administrative       | 15.7%         | 34.6%          | 29.2%          | 6.7%           | 5.6%           | 5.0%           |
| Marketing and sales              | n.m.          | 10.0%          | 19.1%          | 35.1%          | 30.2%          | 29.0%          |
| <b>Y-Y Growth</b>                |               |                |                |                |                |                |
| Revenues                         | 209.6%        | -48.9%         | 46.6%          | 464.6%         | 62.9%          | 29.2%          |
| Operating income                 | n.m.          | n.m.           | n.m.           | n.m.           | 138.8%         | 34.9%          |
| Net income/ loss                 | n.m.          | n.m.           | n.m.           | n.m.           | n.m.           | 45.9%          |



## BALANCE SHEET

| All figures in EUR '000                   | 2014A         | 2015A         | 2016A          | 2017A          | 2018E          | 2019E          |
|---|---------------|---------------|----------------|----------------|----------------|----------------|
| <b>Assets</b>                             |               |               |                |                |                |                |
| <b>Current assets, total</b>              | <b>49,143</b> | <b>51,092</b> | <b>62,190</b>  | <b>88,251</b>  | <b>133,477</b> | <b>189,915</b> |
| Cash and cash equivalents                 | 34,185        | 31,643        | 31,889         | 58,657         | 89,239         | 132,994        |
| Receivables                               | 1,554         | 3,220         | 12,360         | 11,260         | 20,440         | 26,300         |
| Inventories                               | 13,404        | 16,229        | 17,941         | 18,334         | 23,798         | 30,621         |
| Other current assets                      | 0             | 0             | 0              | 0              | 0              | 0              |
| <b>Non-current assets, total</b>          | <b>6,575</b>  | <b>6,585</b>  | <b>64,593</b>  | <b>77,339</b>  | <b>76,976</b>  | <b>77,975</b>  |
| Property, plant & equipment               | 5,598         | 5,661         | 6,043          | 8,234          | 10,220         | 11,272         |
| Long term prepayments                     | 0             | 0             | 1,622          | 2,296          | 0              | 0              |
| Deferrred tax assets                      | 0             | 0             | 0              | 9,442          | 9,442          | 9,442          |
| Goodwill & other intangibles              | 777           | 724           | 56,680         | 56,631         | 56,578         | 56,525         |
| Restricted cash                           | 200           | 200           | 248            | 736            | 736            | 736            |
| <b>Total assets</b>                       | <b>55,718</b> | <b>57,677</b> | <b>126,783</b> | <b>165,590</b> | <b>210,453</b> | <b>267,890</b> |
| <b>Shareholders' equity &amp; debt</b>    |               |               |                |                |                |                |
| <b>Current liabilities, total</b>         | <b>14,873</b> | <b>13,475</b> | <b>51,378</b>  | <b>57,928</b>  | <b>67,902</b>  | <b>73,496</b>  |
| Debt                                      | 0             | 3,047         | 26,136         | 21,962         | 21,962         | 21,962         |
| Deferred license fee income               | 2,200         | 2,207         | 943            | 204            | 204            | 204            |
| Derivative financial liabilities          | 4,266         | 953           | 9,982          | 8,301          | 8,973          | 4,102          |
| Trade and other payables                  | 7,781         | 7,005         | 14,054         | 27,198         | 36,500         | 46,965         |
| Finance lease liabilities                 | 626           | 263           | 263            | 263            | 263            | 263            |
| <b>Longterm liabilities, total</b>        | <b>11,002</b> | <b>20,363</b> | <b>47,938</b>  | <b>88,860</b>  | <b>80,031</b>  | <b>62,255</b>  |
| Debt                                      | 0             | 11,757        | 40,395         | 58,684         | 36,722         | 14,760         |
| Deferred license fee income               | 10,022        | 7,808         | 2,270          | 1,467          | 14,600         | 18,786         |
| Finance lease liabilities                 | 965           | 798           | 599            | 390            | 390            | 390            |
| Other liabilities                         | 15            | 0             | 4,674          | 28,319         | 28,319         | 28,319         |
| <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>29,843</b> | <b>23,839</b> | <b>27,467</b>  | <b>18,802</b>  | <b>62,520</b>  | <b>132,139</b> |
| <b>Total consolidated equity and debt</b> | <b>55,718</b> | <b>57,677</b> | <b>126,783</b> | <b>165,590</b> | <b>210,453</b> | <b>267,890</b> |
| <b>Ratios</b>                             |               |               |                |                |                |                |
| Current ratio (x)                         | 3.30          | 3.79          | 1.21           | 1.52           | 1.97           | 2.58           |
| Quick ratio (x)                           | 2.40          | 2.59          | 0.86           | 1.21           | 1.62           | 2.17           |
| Net gearing                               | -109.9%       | -67.0%        | 128.4%         | 116.5%         | -49.0%         | -72.9%         |
| Book value per share (€)                  | 0.07          | 0.06          | 0.06           | 0.03           | 0.10           | 0.22           |
| Net debt                                  | -32,794       | -15,978       | 35,256         | 21,906         | -30,638        | -96,355        |
| Return on equity (ROE)                    | -33.1%        | -37.1%        | -68.4%         | -345.6%        | 109.2%         | 66.5%          |



## CASH FLOW STATEMENT

| All figures in EUR '000       | 2014A         | 2015A          | 2016A          | 2017A          | 2018E          | 2019E          |
|-------------------------------|---------------|----------------|----------------|----------------|----------------|----------------|
| <b>EBIT</b>                   | <b>2,877</b>  | <b>-12,834</b> | <b>-11,540</b> | <b>21,912</b>  | <b>52,330</b>  | <b>70,581</b>  |
| Depreciation and amortization | 1,038         | 963            | 756            | 3,415          | 2,535          | 2,307          |
| <b>EBITDA</b>                 | <b>3,915</b>  | <b>-11,871</b> | <b>-10,784</b> | <b>25,327</b>  | <b>54,865</b>  | <b>72,889</b>  |
| Changes in working capital    | -7,474        | -5,267         | 642            | 11,099         | 10,087         | 1,967          |
| Other adjustments             | 986           | -103           | 138            | 1,787          | -7,940         | -5,833         |
| <b>Operating cash flow</b>    | <b>-2,573</b> | <b>-17,241</b> | <b>-10,004</b> | <b>38,213</b>  | <b>57,012</b>  | <b>69,023</b>  |
| CAPEX                         | -654          | -898           | -57,474        | -6,045         | -4,468         | -3,306         |
| <b>Free cash flow</b>         | <b>-3,227</b> | <b>-18,139</b> | <b>-67,478</b> | <b>32,168</b>  | <b>52,544</b>  | <b>65,717</b>  |
| <b>Debt financing, net</b>    | <b>-682</b>   | <b>15,524</b>  | <b>63,635</b>  | <b>-10,088</b> | <b>-21,962</b> | <b>-21,962</b> |
| <b>Equity financing, net</b>  | <b>19,375</b> | <b>483</b>     | <b>8,825</b>   | <b>6,833</b>   | <b>0</b>       | <b>0</b>       |
| Other changes in cash         | -1,249        | -210           | -4,688         | -1,057         | -1,336         | 0              |
| <b>Net cash flows</b>         | <b>14,217</b> | <b>-2,342</b>  | <b>294</b>     | <b>27,856</b>  | <b>29,246</b>  | <b>43,755</b>  |
| Cash, start of the year       | 19,968        | 34,185         | 31,843         | 32,137         | 59,993         | 89,239         |
| <b>Cash, end of the year</b>  | <b>34,185</b> | <b>31,843</b>  | <b>32,137</b>  | <b>59,993</b>  | <b>89,239</b>  | <b>132,994</b> |
| <b>EBITDA/share</b>           | <b>0.01</b>   | <b>-0.03</b>   | <b>-0.03</b>   | <b>0.05</b>    | <b>0.09</b>    | <b>0.12</b>    |
| <b>Y-Y Growth</b>             |               |                |                |                |                |                |
| Operating cash flow           | n.m.          | n.m.           | n.m.           | n.m.           | 49.2%          | 21.1%          |
| Free cash flow                | n.m.          | n.m.           | n.m.           | n.m.           | 63.3%          | 25.1%          |
| EBITDA/share                  | n.m.          | n.m.           | n.m.           | n.m.           | 81.5%          | 32.9%          |

### 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...37         | ↓                   | ↓                          | ↓              | ↓            |
| 38             | 7 December 2017     | €1.19                      | Buy            | €1.70        |
| 39             | 18 January 2018     | €1.30                      | Buy            | €1.90        |
| 40             | 8 May 2018          | €1.37                      | Buy            | €2.00        |
| 41             | Today               | €1.33                      | Buy            | €2.00        |

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