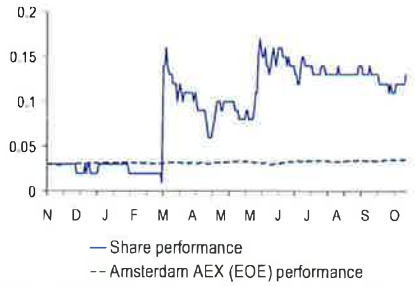
7 November 2013

PHARMING

Calmer waters after the storm

PHARMACEUTICALS & BIOTECHNOLOGY
NETHERLANDS

CURRENT PRICE	€ 0.13	**BUY**
TARGET PRICE	€ 0.22	RATING UPGRADED



Source: Thomson Reuters Datastream

FY/e 31.12	2012	2013E	2014E	2015E
Sales (€ m)	7	7	23	13
REBITDA (€ m)	-20	-8	10	-1
Net earnings (€ m)	-22	-8	9	-2
Diluted adj. EPS (€)	-0.03	-0.02	0.02	0.00
Dividend (€)				
P/E			6.43	
EV/REBITDA			1.87	
Free cash flow yield	-25.7%	-34.6%	1.9%	-18.6%
Dividend yield				

Source: KBC Securities

Bloomberg	PHARM NA
Reuters	PHAR.AS
www.pharming.com	
Market Cap	€ 29m
Shares outst.	332.4m
Volume (Daily)	€ 1.21m
Free float	82.95%

Next corporate event

PDUFA data Ruconest: 16 April 2014

Performance	1M	3M	12M
Absolute	-5%	-5%	303%
Rel. AEX	-10%	-11%	245%

12-m Hi/Lo € 0.17/0.01

Pharming develops innovative therapeutics for the treatment of genetic disorders, as well as specialty products for surgical indications, and nutritional products.

- Pharming's lead product is Ruconest, a recombinant C1 inhibitor for the treatment of acute hereditary angioedema (HAE). The product is obtained from the milk of transgenic rabbits.
- The product is European approved and being commercialized by SOBI, but ramp-up is slow due to specific EU-market dynamics.
- By contrast, Pharming expects much more from the US market. Santarus is the US partner and Ruconest's BLA is currently under regulatory review by the FDA with a PDUFA data set on 16 April 2014. The BLA acceptance triggered a $ 5m milestone to Pharming and first sales should trigger another $ 20m payment. Pharming will provide the commercial material and can see a 30% sales royalty.
- Next to acute HAE, Ruconest could benefit from additional indications such as the prophylaxis of HAE for which an open label study is ongoing. The partners are seeking SPA FDA guidance.
- Pharming has been under severe financial pressure in recent years, resulting in massively dilutive financing events. Following the drastic 2012 restructuring and tight cash control, Pharming was recently able to regain investor interest, raising € 12m. Together with the existing cash of € 13 at end-September, this should be more than sufficient to bridge towards the US approval of Ruconest in 2Q14. Pharming was thought to be sinking, but it is now sailing much calmer waters. We upped our target to € 0.22/sh and rating to BUY (from Hold). Our valuation does not include the potential in HAE prophylaxis.

Jan De Kerpel, PhD
Financial Analyst - Brussels
KBC Securities NV
+32 2 429 84 67
jan.dekerpel@kbcsecurities.be

INVESTMENT HIGHLIGHTS

US Ruconest market entry for HAE in 2Q14

PDUFA DATE RUCONEST FOR ACUTE HAE 16 APRIL 2014.

- Acceptance for review on 18 June triggered a $ 5m milestone
- US acute market segment expanding by $ 155m per annum
- Differentiated competitive profile in US market; potential for treatment paradigm shift
- Significant potential near-term milestone of $ 20m, based on the first US commercial sale
- Proceeds from US commercialization by Santarus are 30-40% of Ruconest net sales and up to $ 45m in sales-related milestones

Upside via additional indications

UPSIDE POTENTIAL FROM ADDITIONAL INDICATIONS

- USA: seeking FDA (SPA) guidance for prophylaxis of HAE
- Santarus to seek FDA guidance on acute pancreatitis
- Indications related to Ischemia Reperfusion Injury (on-going, pre-clinical)

European partner re-aligned

RUCONEST IN EUROPE (EUROPEAN PARTNER: SOBI)

- Sobi has recently re-aligned commercialisation resources

Pipeline development via Chinese partner

PIPELINE DEVELOPMENT

- Strategic product development collaboration with Chinese partner SIPI
- Product development at SIPI and supply by SIPI

Financials coming under control

FINANCIALS STREAMLINED

- Downsized infrastructure; operating costs reduced
- Strong balance sheet following € 12m private placement in October 2013
- Sufficient to cover US regulatory review
- Significant value inflexion points ahead

CHANGING US MARKET DYNAMICS: DEMAND IS GROWING

- HEA disease awareness increases patient identification and patient demand for treatment of moderate symptoms
- MAT 3Q13 sales for acute treatment +47% (FY12: $ 156m); MAT 3Q13 sales for prophylaxis +13% (FY12: $ 327m)

EXPECTED NEWS FLOW

Timing	Indication/Project	
Pipeline		
16 April 2014	Ruconest US	PDUFA data, with first commercial sale triggering $ 20m milestone
2014	Label expansion	Results of open label study for prophylaxis of HAE and SPA guidance. Studies by Santarus in pancreatitis and ischemia reperfusion injury
2014	Platform	Leverage platform via partner SIPI via C1 technology transfer and Factor VIII development

Source: KBC Securities research and Pharming

US COMPETITOR PROFILE

		recombinant C1 Inhibitor	plasma derived C1 Inhibitor		bradykinin receptor antagonist	kallikrein inhibitor
		Ruconest	Cinryze	Berinert	Firazyr	Kalbitor
Efficacy		Excellent	Good	Good	Good	Good
	Dosing (C1INH)	50 U/kg	~ 12 U/kg	20 U/kg		
	Type of attack	Any	Any	Limited	Any	Any
	Response < 4h	80-100%	60%	70%	58-74%	73%
Safety concerns		Very low risk of allergic reaction	Low risk of blood clots	Low risk of blood clots	97% injection site reactions	Black box warning 3.9% anaphylaxis
	Plasma risk	No	YES	YES	No	No
Purity (C1INH)		99%	80%	95%		
Relapse / worsening		Uncommon	Uncommon	Uncommon	11-31%	21%
Administration		IV	IV	IV	SQ	SQ

Source: KBC Securities Research and Pharming

POTENTIAL POSITIONING IN THE US ACUTE MARKET

Berinert/Cinryze

- Potentially under-dosed (500-1500U)
- Significant level of impurities may contribute to side effect profiles
- Thrombotic events (3-5%) have been reported at the recommended dose of pdC1 inhibitors
- Some concern over risk of transmission of infectious disease

Kalbitor

- Black box warning (high level of anaphylaxis (3.9%)
- Admin is difficult and storage not optimised
- Requires refrigeration
- Pharmacology explains level of reported efficacy

Firazyr*

- Almost 100% (very) painful SC injection
- SC injection affects onset of action
- Non response and attack recurrence/ rebound reported in four studies (frequency range:11 – 31%)**

Source: KBC Securities Research and Pharming

FINANCIAL DATA

Income statement (€ m)	2011	2012	2013E	2014E	2015E
Sales	0	7	7	23	13
Gross profit	-4	2	7	23	13
EBIT	-22	-22	-8	9	-2
Pre-tax earnings	-22	-22	-8	9	-2
Net earnings	-22	-22	-8	9	-2
EBITDA	-22	-20	-8	10	-1
REBITDA	-22	-20	-8	10	-1
REBITA	-22	-20	-8	9	-2

Balance sheet (€ m)	2011	2012	2013E	2014E	2015E
Intangible assets	1	1	1	1	1
Tangible assets	10	7	6	6	5
Financial assets	0	0	0	0	0
Net other assets & liabilities	1	1	1	1	1
Net working capital	7	2	6	-2	3
Net debt	14	10	-5	-23	-18
Provisions	-	-	-	-	-
Minorities	0	0	0	0	0
Equity	-1	-8	12	20	19
Capital employed	19	11	14	5	10
Total assets	25	17	30	30	21

Cash flow statement (€ m)	2011	2012	2013E	2014E	2015E
Cash flow from operations	-17	-10	-14	1	-7
Net capital expenditure	-1	-1	0	0	0
Free cash-flow	-18	-11	-14	1	-8
Acquisitions / disposals	0	1	0	0	0
Dividend payments	-	-	-	-	-
Shares issues	13	5	12	0	0
New borrowings / reimbursements	-1	6	16	0	0
Other	-1	0	0	0	0
Change in cash & equivalents	-7	1	14	1	-8

Performance criteria	2011	2012	2013E	2014E	2015E
Sales growth	-120.0%	-2069.0%	2.1%	247.2%	-44.0%
Gross margin	1153.7%	35.3%	99.4%	98.7%	95.6%
REBITDA margin	6566.0%	-310.4%	-116.9%	41.5%	-7.3%
REBITA margin	6566.0%	-310.4%	-116.9%	37.0%	-15.8%
EBIT margin	6576.4%	-329.4%	-116.9%	37.0%	-15.8%
Net debt / Equity + Minorities	-1175.9%	-134.0%	-46.2%	-114.4%	-92.6%
Net debt / EBITDA	-0.64	-0.50	0.68	-2.41	18.39
EBITDA / net interest	-	-	-	-	-
Pay-out ratio	-	-	-	-	-
Return on Equity (avg)	-455.4%	491.6%	-408.5%	54.1%	-10.5%
Return on Capital Employed (avg)	-119.5%	-155.4%	-62.8%	88.6%	-28.1%

Per share data (€)	2011	2012	2013E	2014E	2015E
weighted average # shares, diluted (m)	470.22	748.59	332.43	444.87	444.87
Basic EPS	-0.05	-0.03	-0.02	0.02	0.00
Diluted EPS	-0.05	-0.03	-0.02	0.02	0.00
Diluted, adjusted EPS	-0.05	-0.03	-0.02	0.02	0.00
Net book value / share	0.00	-0.01	0.03	0.06	0.06
Free cash flow / share	-0.04	-0.01	-0.03	0.00	-0.02
Dividend (€)	-	-	-	-	-

Valuation data	2011	2012	2013E	2014E	2015E
Reference share price (€)	0.13	0.04	0.13	0.13	0.13
Reference market capitalisation (€ m)	63.2	42.3	41.6	41.6	41.6
Enterprise value (€ m)	77.2	52.6	36.2	18.2	24.0
P/E	-	-	-	6.4	-
EV/sales	-230.4	8.0	5.4	0.8	1.8
EV/EBITDA	-	-	-	1.9	-
EV/Capital employed	4.0	4.9	2.5	3.5	2.5
P/ NBV	-53.2	-5.5	3.6	2.0	2.2
Free cash flow yield	-28.5%	-25.7%	-34.6%	1.9%	-18.6%
Dividend yield	-	-	-	-	-

Source: KBC Securities *Historic valuation data are based on historic prices