

# Pharming Group NV

Netherlands / Biotechnology  
 Primary exchange: Euronext Amsterdam /  
 Secondary exchange: Frankfurt  
 Bloomberg: PHARM NA  
 ISIN: NL0000377018

Financing update

|                     |              |
|---------------------|--------------|
| <b>RATING</b>       | <b>BUY</b>   |
| <b>PRICE TARGET</b> | <b>€0.06</b> |
| Return Potential    | 150.0%       |
| Risk Rating         | High         |

## CONVERTIBLE BOND ISSUANCE & REVERSE SHARE SPLIT

Pharming published a financing update on 16 January. The company will issue a convertible bond (gross proceeds of €16.35m) and will request shareholder approval for a 10:1 reverse share split and subsequent reduction of the nominal value per share at the upcoming extraordinary general meeting on 28 February. Proceeds from the bond issuance will strengthen the firm's liquidity position ahead of the expected approval for RUCONEST in the US. Submission of the BLA (Biologics License Application) of RUCONEST to the FDA is expected in H1 2013. Acceptance of the BLA for review by the FDA will trigger a \$5m milestone payment by Pharming's US partner Santarus. Our new price target of €0.06 (previously: €0.08) reflects the dilutive effect of shares that will be used to redeem the convertible bond and the warrant coverage linked to the bond. We reiterate our Buy recommendation.

**€16.35m convertible bond** Pharming announced issuance of convertible bonds (gross proceeds: €16.35m; net proceeds: €15.3m). The bonds have a fixed conversion price of €0.03 and carry a coupon of 8.5% p.a. The company has the option to redeem the bonds in cash or shares (seven equal monthly tranches between March and September 2013). Bond investors will also receive 30% warrant coverage. The warrants will be exercisable for five years and have an exercise price of €0.03. After closing of the bond financing, Pharming will issue 180m shares as down payment to the investors for the first amortisations (trading of the new shares began on 1 February). The firm's shareholders still have to approve the convertible bond issuance at an extraordinary general meeting (EGM) which will be held on 28 February. However, the convertible bond investors will provide Pharming with an irrevocable proxy to support the proposals at the upcoming EGM. The firm also announced that - as long as the convertible bonds are outstanding - it will not call any additional tranches from the existing working capital facility (€5.1m still available, see our comment dated 26 November 2012). (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

|                    | 2010   | 2011     | 2012E   | 2013E   | 2014E  | 2015E |
|--------------------|--------|----------|---------|---------|--------|-------|
| Revenue (€m)       | 1.09   | 3.20     | 10.74   | 8.33    | 24.34  | 28.13 |
| Y-o-y growth       | n.a.   | 193.7%   | 236.1%  | -22.4%  | 192.3% | 15.6% |
| EBIT (€m)          | -21.16 | -18.50   | -13.07  | -8.61   | 6.86   | 10.54 |
| EBIT margin        | -19.4% | -579.1%  | -121.7% | -103.4% | 28.2%  | 37.5% |
| Net income (€m)    | -50.22 | -17.10   | -19.26  | -9.01   | 6.30   | 9.42  |
| EPS (diluted) (€)  | -0.19  | -0.04    | -0.02   | -0.01   | 0.00   | 0.01  |
| DPS (€)            | 0.00   | 0.00     | 0.00    | 0.00    | 0.00   | 0.00  |
| FCF (€m)           | -4.07  | -17.99   | -15.32  | -9.23   | 6.10   | 14.71 |
| Net gearing        | 250.3% | -2178.6% | -388.2% | 991.8%  | 224.8% | 72.0% |
| Liquid assets (€m) | 10.30  | 3.78     | 4.99    | 12.10   | 18.21  | 32.92 |

### RISKS

The main risks to our price target include delays in the commercialisation of Ruconest in the EU and the approval of Ruconest in the US.

### COMPANY PROFILE

Pharming Group NV is a Dutch biopharmaceutical company which develops and produces therapeutic proteins in the milk of genetically modified rabbits. Pharming's lead drug candidate, Ruconest, received marketing approval in October 2010 for Europe, where it is already marketed, and is in Phase III trials in the US.

### MARKET DATA

As of 01 Feb 2013

|                         |               |
|-------------------------|---------------|
| Closing Price           | € 0.02        |
| Shares outstanding      | 1189.19m      |
| Market Capitalisation   | € 28.54m      |
| 52-week Range           | € 0.01 / 0.09 |
| Avg. Volume (12 Months) | 14,530,022    |

| Multiples  | 2011 | 2012E | 2013E |
|------------|------|-------|-------|
| P/E        | n.a. | n.a.  | n.a.  |
| EV/Sales   | 31.6 | 9.4   | 12.1  |
| EV/EBIT    | n.a. | n.a.  | n.a.  |
| Div. Yield | 0.0% | 0.0%  | 0.0%  |

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Sep 2012

|                      |           |
|----------------------|-----------|
| Liquid Assets        | € 1.47m   |
| Current Assets       | € 6.74m   |
| Intangible Assets    | € 0.86m   |
| Total Assets         | € 15.65m  |
| Current Liabilities  | € 10.24m  |
| Shareholders' Equity | € -11.11m |

### SHAREHOLDERS

|                                 |       |
|---------------------------------|-------|
| Institutional/private investors | 5.0%  |
| Free Float                      | 95.0% |



**Reverse share split** At the company's EGM at the end of February, Pharming will also request shareholder approval for a 10:1 reverse share split and subsequent reduction of the nominal value per share from €0.10 to € 0.01. The firm will ask its shareholders also for an increase in authorised capital from €130m to €450m.

**New price target, Buy rating confirmed** We have adjusted our pipeline valuation model to the potential dilution associated with the recent convertible bond financing and the warrant coverage. We reiterate our Buy recommendation based on a new price target of €0.06 (previously: €0.08).

**Figure 1: Pipeline valuation model**

| Compound                     | Project <sup>1)</sup> | Present Value  | Patient Pop | Treatment Cost | Market Size     | Market Share | Peak Sales     | PACME Margin <sup>2)</sup> | Discount Factor | Patent Life <sup>3)</sup> | Time to Market |
|------------------------------|-----------------------|----------------|-------------|----------------|-----------------|--------------|----------------|----------------------------|-----------------|---------------------------|----------------|
| Ruconest (EU)                | HAE-AA                | €40.3M         | 10K         | €14,400        | €144M           | 35%          | €56M           | 24%                        | 5%              | 12                        | -              |
| Ruconest (US)                | HAE-AA                | €119.5M        | 10K         | €44,308        | €443M           | 35%          | €173M          | 25%                        | 15%             | 12                        | 1 Years        |
| rhC1INH                      | DGF                   | €22.7M         | 17K         | €15,385        | €262M           | 30%          | €92M           | 28%                        | 15%             | 12                        | 5 Years        |
| rhC1INH                      | AMI                   | €49.8M         | 1,500K      | €7,692         | €11,538M        | 20%          | €2,733M        | 28%                        | 18%             | 12                        | 5 Years        |
| <b>PACME PV</b>              |                       | <b>€232.4M</b> |             |                | <b>€12,387M</b> |              | <b>€2,989M</b> |                            |                 |                           |                |
| <b>Costs PV<sup>4)</sup></b> |                       | <b>€170.9M</b> |             |                |                 |              |                |                            |                 |                           |                |
| <b>NPV</b>                   |                       | <b>€61.5M</b>  |             |                |                 |              |                |                            |                 |                           |                |
| Milestones PV                |                       | €13.2M         |             |                |                 |              |                |                            |                 |                           |                |
| Net Cash (pro-forma)         |                       | €27.9M         |             |                |                 |              |                |                            |                 |                           |                |
| Fair Value                   |                       | €102.7M        |             |                |                 |              |                |                            |                 |                           |                |
| Share Count (fully diluted)  |                       | 1,721,912K     |             |                |                 |              |                |                            |                 |                           |                |
| <b>Price Target</b>          |                       | <b>€0.06</b>   |             |                |                 |              |                |                            |                 |                           |                |

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

Source: First Berlin Equity Research

**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...17         | ↓                   | ↓                          | ↓              | ↓            |
| 18             | 15 October 2012     | €0.04                      | Buy            | €0.06        |
| 19             | 5 November 2012     | €0.03                      | Buy            | €0.06        |
| 20             | 26 November 2012    | €0.03                      | Buy            | €0.08        |
| 21             | Today               | €0.02                      | Buy            | €0.06        |

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BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

REDUCE: Expected negative return between 0% and -15%

SELL: Expected negative return greater than -15%

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