Pharming Group NV

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

FY 2013 Results

RATING	**BUY**
PRICE TARGET	**€1.00**
Return Potential	78.6%
Risk Rating	High

LOWER COST BASIS, STABILISED BALANCE SHEET, AWAITING FDA RESPONSE

Pharming group released preliminary FY 2013 results on 6 March and held a conference call at 9.30 a.m. Operating development during the past fiscal year was in line with our expectations. Due mainly to lower R&D costs for clinical trials and a general improvement in the firm's cost basis, operating and net income improved markedly y/y. In addition, following Q4's capital increase, Pharming's equity position had returned to the black by end December 2013. On 24 February, Pharming and its US partner Salix Pharmaceuticals announced that the US Food and Drug Administration (FDA) has extended the review period of the Biologics License Application (BLA) for lead compound Ruconest by three months and will now respond to the Ruconest BLA by 16 July. We have adjusted our financial forecasts for Pharming's increased guidance on Ruconest sales development outside the US and the extended BLA review period. We have also increased our pipeline valuation assumptions for the US projects based on information given during the FY 2013 earnings call. Our updated valuation model (shifted one year ahead) yields a new price target of EUR1.00 (previously: EUR0.70). We reiterate our Buy recommendation.

Top-line decreases due to lower milestones Sales and other income decreased to EUR7.0m (FBe: EUR8.1m; FY12: EUR10.9m) due mainly to lower milestone payments. In 2013, Pharming received EUR3.8m from its US partner Santarus (in the meantime acquired by US company Salix Pharmaceuticals) associated with the FDA acceptance for review of the BLA for Ruconest. In 2012, the company received a milestone of EUR7.9m from Santarus for successful completion of Study 1310 (treatment of acute attacks of angioedema in patients with Hereditary Angioedema (HAE) - see our 26 November 2012 update). Our top-line forecast also included milestone payments from Chinese partner SIPI, which are now scheduled for the current fiscal year. Adjusted for the SIPI payment, our estimate of EUR6.9m (see our 9 September 2013 update) was in line with Pharming's FY 2013 top-line result. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2011	2012	2013	2014E	2015E	2016E
Revenue (€m)	3.20	10.86	6.95	22.14	20.50	80.13
Y-o-y growth	n.a.	240.0%	-36.0%	218.6%	-7.4%	290.9%
EBIT (€m)	-18.50	-17.46	-6.91	5.75	3.12	61.22
EBIT margin	-5.8%	-160.7%	-99.5%	26.0%	15.2%	76.4%
Net income (€m)	-17.10	-24.09	-14.84	3.71	2.76	52.92
EPS (diluted) (€)	-0.04	-0.02	-0.04	0.01	0.01	0.14
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-17.99	-10.88	-8.31	3.49	-0.58	31.73
Net gearing	-2178.6%	-320.1%	526.5%	220.4%	171.3%	41.9%
Liquid assets (€m)	3.78	5.27	16.97	20.46	26.09	57.82

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

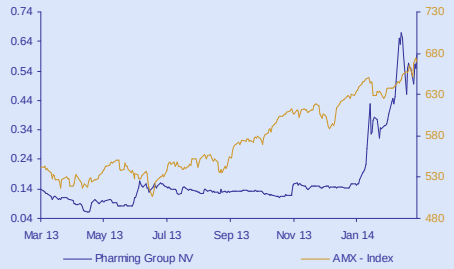
Pharming develops and produces therapeutic proteins from the milk of genetically modified rabbits. Pharming and Chinese SIPI signed a collaboration agreement in 2013, which will accelerate the addition of new projects to the firm's R&D pipeline. Lead drug candidate Ruconest received EMA approval in 2010. In the US, the FDA will respond to the Ruconest BLA by 16 July 2014.

MARKET DATA

As of 07 Mar 2014	
Closing Price	€ 0.56
Shares outstanding	373.50m
Market Capitalisation	€ 209.16m
52-week Range	€ 0.06 / 0.67
Avg. Volume (12 Months)	19,992,375

Multiples	2013	2014E	2015E
P/E	n.a.	13.2	17.7
EV/Sales	7.2	2.2	2.4
EV/EBIT	n.a.	8.6	15.9
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Dec 2013	
Liquid Assets	€ 16.97m
Current Assets	€ 24.60m
Intangible Assets	€ 0.41m
Total Assets	€ 31.41m
Current Liabilities	€ 12.92m
Shareholders' Equity	€ 5.01m

SHAREHOLDERS

Broadfin Healthcare Master Fund	6.1%
Kingdon Capital Management LLC	2.7%
Others	3.7%
Free Float	87.5%

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Significantly lower OPEX Due to reduced R&D costs for clinical studies (R&D costs totalled to EUR9.9m; FY12: EUR19.4m) and the positive effect of FY 2012's cost containment programme (general and administrative costs of EUR2.2m; FY12: EUR3.1m), operating expenditures (OPEX) declined markedly to EUR12.8m (FY12: EUR24.1m). Inventory impairments of EUR0.6m (FY12: EUR3.1m) were also significantly lower than in the previous fiscal year. Operating income thus improved to EUR-6.9m (FBe: EUR-6.0m; FY12: EUR-17.5m). Financial expenses (in FY 2013 mainly attributable to the EUR16.4m convertible bond issuance in January) of EUR8.1m (FY12: EUR7.9m) were slightly higher than in FY 2012. Net income amounted to EUR-14.8m (FBe: EUR-14.8m; FY12: EUR-24.1m).

High liquidity and positive equity position Based on an operating cash flow of EUR-8.3m (FY12: EUR-10.3m) and cash flow from financing activities of EUR21.1m (due to the above-mentioned 16.4m convertible bond issuance in January, but also the capital increase of EUR12.0m in October; FY12: EUR11.6m), net cash flow amounted to EUR13.0m (FY12: EUR1.4m). As expected, Pharming used part of its funds for working capital investments ahead of the anticipated US approval for Ruconest in the current fiscal year. Inventories increased by EUR2.7m y/y to EUR4.8m (end of FY12: EUR2.1m). Cash and cash equivalents (including restricted cash) at the end of FY 2013 thus increased to EUR19.2m (end of FY12: EUR6.3m). The company's current pro-forma cash position is EUR4.2m higher due to additional cash inflows associated with the exercise of warrants at the beginning of 2014. Due to last year's capital increase, Pharming's equity position was positive again (EUR5.0m versus EUR-7.7m at the end of FY12). Adjusted for deferred license fee income, the company's equity position was EUR19.4m at the end of 2013.

Reimbursement for Ruconest in several European markets Pharming did not provide detailed financial guidance for 2014E with its FY 2013 results. However, since Pharming's European partner Sobi obtained reimbursement for Ruconest in several European markets at the end of FY 2013, the company expects sales outside the US to increase by more than EUR2m to over EUR3m.

Marketing approval in Israel In the middle of January, Pharming announced that its Israeli partner MegaPharm had received marketing approval for Ruconest (indication: acute attacks of angioedema in adults with HAE). Ruconest was also approved by the reimbursement committee for addition to the Israeli Health basket with no extra costs. Under the terms of the agreement, MegaPharm will purchase supplies of Ruconest at a price based on a percentage of net sales. MegaPharm plans to launch Ruconest during Q1 2014.

Adjustments to our forecasts We have adjusted our financial forecasts for Pharming's increased sales guidance for Ruconest outside the US, the extended BLA review period (FDA response by 16 July), and shifted our assumptions concerning the SIPI payments one year ahead (now in 2014E). We have also increased our pipeline valuation assumptions for the US projects based on information given at the FY 2013 earnings call. During the call, CEO deVries elaborated on Pharming's agreement with US partner Salix. The company will receive a supply rate of 30% of net sales from its US partner for the first USD100m in sales (the rate subsequently increases to a maximum of 40% afterwards). Taking into account cost of goods sold (COGS) that have the potential to range in the single digit percentage area (due to economies of scale following EMA approval for Pharming's contract manufacturing organization partner - see our 24 April update), we have increased our PACME (Profit After Costs and Marketing Expenses) margin assumptions for the two US projects. Given the higher peak sales potential of the US HAE-PR (prophylaxis) project, we have increased our PACME margin assumption by 5pp (see pipeline valuation table overleaf), whereas we increased our PACME margin assumption for the US HAE-AA (acute attacks) project by 3pp. Changes to our financial forecasts are shown in table 2 overleaf.

Buy recommendation reiterated at higher price target Based on the above-mentioned changes to our valuation, a pro-forma cash position including additional cash inflows (EUR4.2m) associated with the exercise of warrants at the beginning of 2014, and a higher fully diluted share count, our updated pipeline valuation model (shifted one year ahead) yields a new price target of EUR1.00 (previously: EUR0.70). We reiterate our Buy recommendation.

Table 1: Estimates vs. reported figures

All figures in €m	FY-13A	FY-13E	Delta	FY-12A	Delta
Sales*	6.95	8.15	-14.7%	10.86	-36.0%
EBIT	-6.91	-5.99	-	-17.46	-
margin	*-99.4%*	*-73.5%*	-	*-160.7%*	-
Net income	-14.84	-14.85	-	-24.09	-
margin	*-213.5%*	*-182.2%*	-	*-221.8%*	-
EPS (in €)	-0.07	-0.07	-	-0.33	-

* Total sales including other operating income like milestone payments

Source: First Berlin Equity Research, Pharming Group NV

Table 2: Changes to forecasts

	2014E			2015E			2016E		
All figures in €m	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales*	19.69	22.14	12.4%	13.48	20.50	52.1%	58.28	80.13	37.5%
EBIT	3.30	5.75	74.2%	-3.90	3.12	-	39.37	61.22	55.5%
margin	*16.8%*	*26.0%*	-	*-28.9%*	*15.2%*	-	*67.6%*	*76.4%*	-
Net income	2.97	3.71	24.8%	-3.99	2.76	-	34.89	52.92	51.7%
margin	*15.1%*	*16.7%*	-	*-29.6%*	*13.5%*	-	*59.9%*	*66.0%*	-
EPS (in €)	0.01	0.01	24.8%	-0.01	0.01	-	0.09	0.14	51.7%

* Total sales including other operating income like milestone payments

Source: First Berlin Equity Research

Table 3: Pipeline valuation model

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	€28.1M	10K	€14,400	€144M	35%	€56M	16%	15%	12	-
Ruconest (US)	HAE-AA	€188.4M	10K	€44,308	€443M	35%	€170M	28%	15%	12	0 Years
Ruconest (EU)	HAE-PR	€19.3M	3K	€78,998	€261M	35%	€103M	16%	15%	10	3 Years
Ruconest (US)	HAE-PR	€225.5M	3K	€270,000	€891M	35%	€355M	30%	15%	10	3 Years
rhC1INH	IRI*	€51.8M	-	-	-	-	-	-	-	-	> 5 Years
PACME PV		€513.2M			€1,739M		€684M				
Costs PV[4)]		€167.0M									
NPV		€346.3M									
Milestones PV		€11.3M									
Net Cash (pro-forma)		€18.0M									
Fair Value		€375.6M									
Share Count (fully diluted)		390,785K									
Price Target		€0.96									

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

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...22	↓	↓	↓	↓
23	9 September 2013	€0.13	Buy	€1.00
24	15 October 2013	€0.12	Buy	€0.70
25	19 November 2013	€0.15	Buy	€0.70
26	Today	€0.56	Buy	€1.00

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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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