Pharming Group NV

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

H1 2014 Results

RATING	**BUY**
PRICE TARGET	**€1.10**
Return Potential	150.6%
Risk Rating	High

STRONG INCREASE IN EU SALES; FDA APPROVAL

On 31 July Pharming released H1 2014 results and held a conference call at 10am. Revenues from European product sales increased significantly y/y and the firm's liquidity and equity positions improved markedly due mainly to the April 2014 capital increase. Pharming anticipates that product revenues from EU markets will amount to EUR3m in the current fiscal year. In addition, the USD20m milestone payment from US partner Salix Pharmaceuticals associated with successful FDA approval of RUCONEST will be due in H2 2014. We have adjusted our estimates for the company's H1 2014 results and the information provided during the conference call. We reiterate our Buy recommendation based on a new price target of EUR1.10 (previously: EUR1.05).

Strong increase in European product sales In H1 2014, European RUCONEST sales increased markedly y/y to EUR1.4m (FBe: EUR1.5m; H1/13: EUR0.2m). Including other income, such as the release of deferred income, Pharming's top-line result decreased y/y to EUR2.5m (FBe: EUR2.5m; H1/13: EUR4.9m) due to last year's USD5m milestone payment by US partner Santarus (now: Salix Pharmaceuticals - see our comment of 9 September 2013). Taking into account COGS of EUR1.4m, inventory impairments of EUR0.4m and OPEX at the prior year's level (EUR6.2m vs. EUR6.3m in H1/13), EBIT came in at EUR-5.4m (FBe: EUR-5.5m; H1/13: EUR-1.4m). Due to the revaluation of warrants caused by the increase in Pharming's share price, H1's net financial result was EUR-14.7m (FBe: EUR-12.9m; H1/13: EUR-5.9m). The company thus reported a net loss of EUR-20.1m (FBe: EUR-18.4m; H1/13: EUR-7.2m) or EUR-0.05 (FBe: EUR-0.04; H1/13: EUR-0.05) per share.

Further improvement in equity and liquidity positions Due mainly to third party manufacturing payments ahead of the anticipated US launch of RUCONEST in H2 2014, operating cash flow was EUR-11.0m (H1/13: EUR-7.5m) in H1 2014. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2011	2012	2013	2014E	2015E	2016E
Revenue (€m)	3.20	10.86	6.95	25.29	20.50	62.18
Y-o-y growth	n.a.	240.0%	-36.0%	263.8%	-18.9%	203.3%
EBIT (€m)	-18.50	-17.46	-6.91	5.89	3.12	43.27
EBIT margin	-5.8%	-160.7%	-99.5%	23.3%	15.2%	69.6%
Net income (€m)	-17.10	-24.09	-14.84	-11.45	2.76	37.40
EPS (diluted) (€)	-0.04	-0.02	-0.04	-0.03	0.01	0.09
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-17.99	-10.88	-8.31	1.31	-0.58	22.78
Net gearing	-2178.6%	-320.1%	526.5%	224.3%	192.2%	41.4%
Liquid assets (€m)	3.78	5.27	16.97	32.98	32.40	55.17

RISKS

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

COMPANY PROFILE

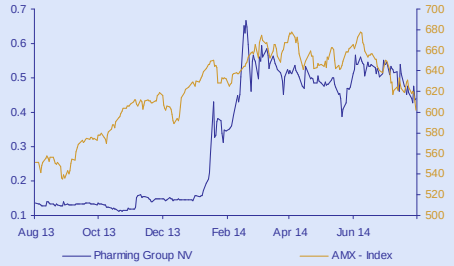
Pharming develops and produces therapeutic proteins from the milk of genetically modified rabbits. Pharming and Chinese SIPI signed a collaboration agreement in 2013, which will accelerate the addition of new projects to the firm's R&D pipeline. Lead drug candidate Ruconest received EMA approval in 2010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

MARKET DATA

As of 01 Aug 2014	
Closing Price	€ 0.44
Shares outstanding	407.05m
Market Capitalisation	€ 178.70m
52-week Range	€ 0.11 / 0.67
Avg. Volume (12 Months)	22,917,193

Multiples	2013	2014E	2015E
P/E	n.a.	n.a.	64.7
EV/Sales	25.8	7.1	8.8
EV/EBIT	n.a.	30.5	57.5
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2014	
Liquid Assets	€ 26.43m
Current Assets	€ 34.49m
Intangible Assets	€ 0.34m
Total Assets	€ 40.99m
Current Liabilities	€ 16.46m
Shareholders' Equity	€ 12.19m

SHAREHOLDERS

Broadfin Healthcare Master Fund	5.6%
Kingdon Capital Management LLC	2.0%
Others	3.9%
Free Float	88.5%

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Helped by proceeds from equity and warrant issues totalling EUR19.1m, net cash flow was positive at EUR7.3m (H1/13: EUR7.6m).
Cash and cash equivalents (including restricted cash) at the end of June 2014 thus increased YTD to EUR26.4m (end FY13: EUR13.9m). Deferred license fee income (current- and non-current) totalled EUR13.3m (end FY13: EUR14.4m). Despite H1's net loss, equity improved to EUR12.2m (end FY13: EUR5.0m) due to the April capital increase (private placement; proceeds of EUR14.7m; see our comment of 20 May 2014) and the exercise of warrants (EUR4.4m).

2014E guidance Pharming expects RUCONEST product sales in Europe to generate revenues of EUR3m this year. Moreover, the anticipated USD20m milestone payment from US partner Salix Pharmaceuticals is due in H2 2014 (at the latest 90 days following receipt of US FDA approval on 16 July - see our comment of 21 July).

Business update Upon publication of its H1 2014 results Pharming also issued an update on the anticipated market launch of RUCONEST in the US and its other R&D projects. Following the strengthening of the balance sheet in April, taking into account the anticipated USD20m milestone payment scheduled for H2, and given the supply price of 30% of net sales generated in the US (first sales are forecast to be generated in H2), Pharming will be sufficiently funded to invest in additional indications for RUCONEST such as prophylaxis of HAE (hereditary angioedema). The company outlined once more that inhibition of C1 esterase is the gold standard for HAE treatment and Pharming's pivotal US phase III clinical trial with RUCONEST confirmed consistent efficacy and the best safety profile available. Pharming and its US partner Salix Pharmaceuticals plan to initiate a phase II clinical trial for HAE prophylaxis in the US later this year.

Figure 1: HAE treatment options

HAE treatment options (published data)					
	recombinant C1 Inhibitor	**plasma derived C1 Inhibitor**		**bradykinin receptor antagonist**	**kallikrein inhibtor**
	Ruconest ***	**Cinryze ******	**Berinert**	**Firazyr**	**Kalbitor *******
Efficacy	Excellent	Good	Good	Good	Good
Dosing (C1INH)	50 U/kg *	~12 U/kg	20 U/Kg		
Treatment type	Any acute	Prophylaxis	Limited **	Any acute	Any acute
Response <4h	80-100%	~60%	0.7	58-74%	0.73
Safety concerns	Very low risk of allergic reaction	Warning: Risk of blood clots	Warning: Risk of blood clots	97% injection site reactions	Black box warning 3.9% anaphylaxis
Plasma risk	No	Yes	Yes	No	No
Purity (C1INH)	>99.9%	± 80%	95%		
Relapse/worsening	Uncommon	Uncommon	Uncommon	11-31%	21%
Administration	IV	IV	IV	SQ	SQ (no self-administration)

* Optimal efficacy of C1INH is achieved at doses ≥50 U/kg
** Berinert not licensed for peripheral attacks in US
*** Ruconest approved in EU, Israel and US
**** Cinryze not licensed for acute therapy in US
***** Kalbitor not approved in EU

Source: Pharming Group NV

Adjustments to our forecasts We have adjusted our R&D project assumptions and financial forecasts for the details provided upon publication of Pharming's H1 2014 results. Changes to our financial forecasts are shown in table 2 below. Our pipeline valuation model yields a new price target of EUR1.10 (previously: EUR1.05) due mainly to the higher PV of the US projects (30% royalty rate; previous FBe: 28%). We reiterate our Buy rating.

Table 1: Estimates vs. reported figures

All figures in €m	H1-14A	H1-14E	Delta	H1-13A	Delta
Sales*	2.54	2.51	1.2%	4.91	-48.2%
EBIT	-5.42	-5.53	-	-1.35	-
margin	*neg.*	*neg.*	-	*neg.*	-
Net income	-20.14	-18.40	-	-7.21	-
margin	*neg.*	*neg.*	-	*neg.*	-
EPS (in €)	-0.05	-0.04	-	-0.05	-

* 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*	22.14	25.29	14.2%	20.50	20.50	0.0%	62.18	62.18	0.0%
EBIT	5.09	5.89	15.7%	3.12	3.12	0.0%	43.27	43.27	0.0%
margin	*23.0%*	*23.3%*	-	*15.2%*	*15.2%*	-	*69.6%*	*69.6%*	-
Net income	-9.93	-11.45	-	2.76	2.76	0.0%	37.40	37.40	0.0%
margin	*neg.*	*neg.*	-	*13.5%*	*13.5%*	-	*60.2%*	*60.2%*	-
EPS (in €)	-0.02	-0.03	-	0.01	0.01	-7.2%	0.10	0.09	-7.2%

* 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	€210.3M	10K	€44,308	€443M	35%	€170M	30%	15%	12	-
Ruconest (EU)	HAE-PR	€41.8M	3K	€78,998	€261M	35%	€104M	16%	15%	10	4 Years
Ruconest (US)	HAE-PR	€267.8M	3K	€270,000	€891M	35%	€355M	30%	15%	10	4 Years
rhC1INH	IRI*	€51.8M	-	-	-	-	-	-	-	-	> 5 Years
PACME PV		€599.8M			€1,739M		€685M				
Costs PV[4)]		€162.4M									
NPV		€437.4M									
Milestones PV		€15.1M									
Net Cash (pro-forma)		€27.2M									
Fair Value		€479.7M									
Share Count (fully diluted)		439,821K									
Price Target		€1.09									

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...25	↓	↓	↓	↓
26	10 March 2014	€0.56	Buy	€1.00
27	20 May 2014	€0.45	Buy	€0.95
28	21 July 2014	€0.51	Buy	€1.05
29	Today	€0.44	Buy	€1.10

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SELL: Expected negative return greater than -15%

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