

24 March 2015

PHARMING

Highlights of KBCS Healthcare Conference 19/3

 PHARMACEUTICALS & BIOTECHNOLOGY
 NETHERLANDS

 CURRENT PRICE €0.36
 TARGET PRICE €0.37

HOLD
 RATING UNCHANGED

Performance over	1M	3M	12M
Absolute	0%	-10%	-32%
Rel. AEX	-4%	-23%	-47%
12m Hi/Lo	€ 0.57/0.32		
Bloomberg	PHARM NA		
Reuters	PHAR.AS		
Market Cap	€ 144m		
Next corporate event			

www.pharming.com

FY/e 31.12	2013	2014E	2015E	2016E
Sales (€m)	6	20	11	18
REBITDA (€m)	-7	6	-6	-1
Net earnings (€m)	-7	5	-7	-2
Diluted adj. EPS (€)	-0.02	0.01	-0.02	-0.01
Dividend (€)				
P/E		33.44		
EV/REBITDA		20.91		
Free cash flow yield	-23.4%	-3.3%	-8.8%	-1.0%
Dividend yield				

Source: KBC Securities

Following our Brussels-based healthcare conference held on 19 March 2015, we here look back at the highlights of the presentations of the participating companies.

Pharming was represented by CEO Sijmen de Vries.

HIGHLIGHTS

- Ruconest sales strategy continues as planned despite the announced take-over of US partner.** The US commercialisation of Pharming's main product Ruconest is still on track. The product was already launched in 4Q14 (first US sales of €0.3m), before the announcement of the acquisition of Salix, Pharming's partner to commercialize Ruconest in the US. The sales structure is up and running and the team focused on reimbursements is still working. So the CEO stressed that for the people in the field, it's still business as usual despite the Salix/Valeant announcement.
- Sales potential.** No guidance on 2015 sales due to potential swings of variables like patients. At this stage it is too early to predict who are high-frequency users, how many times they use it (1x or 2x/week), etc. But the first feedback from patients is positive. And despite the fact that there are 4 competing products on the market, the potential is significant as i) 40-50% of the market is not satisfied with their current drugs and ii) patients use 2 drugs most of the time. Pharming believes that combining the current drug Firazyr with Ruconest is the best treatment. The advantage of Ruconest is that its efficacy is high (vs. good for rival products).
- Regaining some rights in Europe.** Pharming regained the rights of Ruconest in a few countries like Germany, Austria and the Netherlands. They will not increase their direct exposure to Europe on the short term. As they have no experience with the commercialization of a product, they want to prove first that they are successful in those countries before starting negotiations again with SOBI who is their European partner.

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KEY INVESTMENT HIGHLIGHTS

Pharming developed Ruconest, a medicine to resolve acute HAE attacks. During the conference, they provided an overview of the FY14 results and a progress update on Ruconest's commercialisation. In the US it is running according to plan despite the news that Valeant is to acquire Pharming's US partner Salix. Also, both Salix and Valeant are supporting the Phase 2 study of Ruconest for Prophylaxis of HAE and are still evaluating the potential for further R&D investments for acute pancreatitis (AP) for Ruconest. No financial guidance for 2015.

Ruconest for Prophylaxis of HAE. Pharming and Salix recently initiated a phase II clinical trial and results will be published by the end of this year. Valeant/Salix are supporting and financing the development costs shared 50/50 with Pharming.

Additional Indications for Ruconest. Acute pancreatitis (AP) is an acute inflammatory disorder of the pancreas for which there are currently no approved medical therapies and where Pharming sees more upside for Ruconest. Market size would be between \$ 1.5-3bn. Valeant and Salix are not against R&D but are evaluating this opportunity. Meanwhile Pharming won't invest in this indication, preferring to wait for the outcome of Valeant/Salix.

Other developments. Pharming also acquired assets from TRM SASU for €0.5m and plans to open a Boston R&D office in 2015 for which a new CSO has been hired. Pharming also has a strategic collaboration with Shanghai Institute for Pharmaceutical Industry (SIPI) for product development, which should create manufacturing efficiencies combined with the competitive features of Pharming's platform.

Balance sheet & outlook. Pharming currently has a healthy cash position of €33.3m with no debt and rising revenues from Ruconest's US launch and further EU growth. They will continue to invest (at least €10m) in the build-up of Ruconest inventories. Meanwhile, the rising sales volumes are crucial to bringing down the COGS. Pharming didn't give any financial guidance for 2015.

Recap on Ruconest and the competitive landscape. The price of Ruconest is equal to that of one rival product but Ruconest is more efficient. The 4 competing products:

- Cinryze (prophylaxis, 60% response <4h)
- Berinert (acute, 70% response <4h, \$100m sales)
- Firazyr (acute, 58-74% response <4h, \$350m sales and commercial success because patients can inject it themselves)
- Kalbitor (acute, 73% response <4h, inconvenient as patients have to go to the hospital).

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FINANCIAL DATA

Income statement (€m)	2013	2014E	2015E	2016E
Sales	6	20	11	18
Gross profit	5	18	7	12
EBIT	-7	5	-7	-2
Pre-tax earnings	-7	5	-7	-2
Net earnings	-7	5	-7	-2
EBITDA	-7	6	-6	-1
REBITDA	-7	6	-6	-1
REBITA	-7	5	-7	-2
Balance sheet (€m)	2013	2014E	2015E	2016E
Intangible assets	0	0	0	0
Tangible assets	6	5	5	4
Financial assets	0	0	0	0
Net other assets & liabilities	0	0	0	0
Net working capital	1	9	14	12
Net debt	-3	-20	-9	-9
Provisions	-	-	-	-
Minorities	0	0	0	0
Equity	5	29	22	20
Capital employed	8	16	20	17
TOTAL ASSETS	31	52	39	36
Cash flow statement (€m)	2013	2014E	2015E	2016E
Cash flow from operations	-8	-5	-12	-1
Net capital expenditure	0	0	0	0
Free cash-flow	-8	-5	-13	-1
Acquisitions / disposals	0	0	0	0
Dividend payments	-	-	-	-
Shares issues	12	19	0	0
New borrowings / reimbursements	14	0	0	0
Other	-6	0	0	0
CHANGE IN CASH & EQUIVALENTS	12	14	-13	-1
Performance criteria	2013	2014E	2015E	2016E
Sales growth	-11.5%	246.6%	-44.3%	63.9%
Gross margin	90.9%	91.1%	60.4%	64.0%
REBITDA margin	-127.5%	29.6%	-52.2%	-6.1%
REBITA margin	-127.5%	24.5%	-61.9%	-12.4%
EBIT margin	-127.5%	24.5%	-61.9%	-12.4%
Net debt / Equity + Minorities	-69.8%	-67.8%	-40.3%	-47.6%
Net debt / EBITDA	0.47	-3.30	1.51	8.42
EBITDA / net interest	-	-	-	-
Pay-out ratio	-	-	-	-
= Return on Equity (avg)	563.6%	29.1%	-27.3%	-10.9%
Return on Capital Employed	-80.0%	42.1%	-39.6%	-12.6%
Per share data (€)	2013	2014E	2015E	2016E
weighted average # shares, diluted	332,434,319	465,653,249	407,053,249	407,053,249
Basic EPS	-0.03	0.01	-0.02	-0.01
Diluted EPS	-0.02	0.01	-0.02	-0.01
Diluted, adjusted EPS	-0.02	0.01	-0.02	-0.01
Net book value / share	0.02	0.07	0.05	0.05
Free cash flow / share	-0.04	-0.01	-0.03	0.00
Dividend (€)	-	-	-	-
Valuation data	2013	2014E	2015E	2016E
Reference share price (€)	0.11	0.36	0.36	0.36
Reference market capitalisation	35.6	144.9	144.9	144.9
Enterprise value (€m)	32.1	125.2	136.0	135.5
P/E	-	33.4	-	-
EV/sales	5.5	6.2	12.1	7.3
EV/EBITDA	-	20.9	-	-
EV/Capital employed	4.1	8.0	7.0	8.1
P/ NBV	7.1	5.0	6.6	7.3
Free cash flow yield	-23.4%	-3.3%	-8.8%	-1.0%
Dividend yield	-	-	-	-

Source: KBC Securities

*Historic valuation data are based on historic prices

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	Definition
BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 15% over a 6-month period
HOLD	Expected total return (including dividends) between -5% and 5% over a 6-month period
REDUCE	Expected total return (including dividends) between -15% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	25.90%	0.00%
ACCUMULATE	26.70%	0.00%
HOLD	44.00%	0.00%
REDUCE	1.70%	0.00%
SELL	1.70%	0.00%

Pharming develops recombinant human proteins in the milk of transgenic mammals and offers the technology to other biopharmaceutical companies.

The price target for Pharming is based on following parameters: Discounted Cash Flow (DCF)

The risks which may impede the achievement of our price target are: Products in development may fail. Sales of new products may fall short of expectations.

Any reference made to a DCF valuation for Pharming is based on the following parameters: a forecast period from 2007 until 2020, a perpetual growth rate of 2% and a calculated WACC of 12.5%.

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

Date	Rating	Target price
2015-02-23	Hold	€ 0.37

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