STIFEL

18 May 2016

# Pharming Group N.V.

**BUY**

Pharmaceuticals

*Target Price Change*

## Slow start to 2016 but profits improving

***Pharming announced a sluggish start to Ruconest sales in 2016 as a result of the changing sales strategy in the US by partner Valeant, and prior stocking issues from EU partner SOBI. We have reduced our near-term sales forecasts for Ruconest accordingly, and set a revised target price of €0.71 (previously €0.88). We believe Ruconest's positioning as a safe and efficacious alternative to the incumbent treatments for HAE should eventually translate into increased sales, but is taking longer than previously anticipated. Near term, we believe positive results from the Phase II trial in the prophylactic use of Ruconest in HAE (expected mid-2016) will be an important catalyst for investor sentiment as Pharming seeks to expand the Ruconest franchise. Buy.***

**Sluggish 1Q16 but profits heading in right direction**. Pharming has had a slow start to 2016, with flat sales for 1Q16 of €1.6m (versus €1.7m in 4Q15). This was primarily due to a change in sales focus in the US for Ruconest to fewer, higher-prescribing physicians which impacted sales in January and February, but looked to be bearing fruit by the end of the quarter. Income from US sales increased to €1.5m, versus €1.2m in 4Q15. Total Ruconest sales were also impacted by the absence of ordering by EU partner SOBI as a result of gradual stocking of inventory during 2015. Pharming's gross profits, however, have continued to increase, up from €0.8m in 1Q15 to €1.6m in 1Q16, as a result of the improving mix between US and EU sales. Cash at the end of 1Q16 was €27.7m.

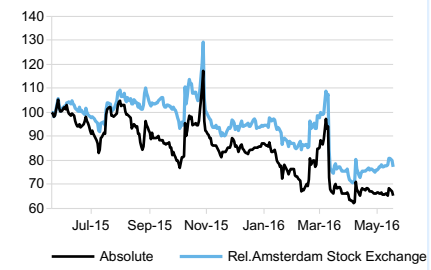
**Ruconest forecasts moderated to reflect slower uptake.** Based on the slow sales uptake we have delayed our outlook for Ruconest going forward. We now forecast in-market sales of $30m for 2016 (vs $48m) and reduced our peak sales estimate in 2020 to $200m (forecasts attached). We continue to believe that Ruconest's offering as a safe and efficacious alternative to the market incumbents should begin to generate increasing sales over 2016, but at present this is taking longer than expected. Pharming began selling Ruconest directly in Germany, Austria and the Netherlands (€0.1m) in 1Q16, with encouraging feedback. SOBI continues to do well in Eastern Europe, and the company has seen the first requests for Ruconest through its collaboration with Clinigen and the international patient organisation, HAEi.

**Investing in franchise expansion.** Pharming expects to announce preliminary results from its Phase II study of Ruconest in prophylaxis of HAE in mid-2016, which we believe will be important in the context of longer-term expansion of the franchise to better compete with established products. Pharming is also investing in milk production sites in the Netherlands to ensure supply meets demand. Aside from Ruconest, the company is expanding its R&D center in France and is due to announce details of its other pipeline programs in the next few months.

**Reiterate Buy.** Despite a lumpy start to Ruconest in 1Q16, we see a positive outlook for the product, and Pharming's improvement in profit mix is encouraging. Results from the Phase II prophylaxis trial and continuing focus on higher-prescribing physicians in the US should increase sales during 2016. Our NPV continues to suggest significant upside to the current share price.

| Price (18 May 2016) | | €0.20 |
|---|---|---|
| **Changes** | **Previous** | **Current** |
| Rating | - | BUY |
| Target Price | €0.88 | €0.71 |

**Share price performance (indexed)**




**Key data**

| | |
|---|---|
| Stock code | PHARM NA |
| Market cap (€m) | 83 |
| Amsterdam Stock Exchange | 639 |
| Amsterdam Midkap Index | |
| 1mth perf (%) | (3.7) |
| 3mths perf (%) | (23.0) |
| 12mths perf (%) | (36.1) |
| 12mth high-low (€) | 0 - 0 |
| Free float (%) | 100 |

**Key financials**

| Year to Dec | 2015A | 2016E | 2017E |
|---|---|---|---|
| Sales (€) | 10.8 | 14.2 | 18.9 |
| EBIT adj | (13.01) | (9.15) | (7.23) |
| EBIT margin (%) | (120.5) | (64.4) | (38.2) |
| EPS adj (c) | (2.4) | (2.5) | (2.0) |
| EV/EBITDA (x) | -- | -- | -- |
| PE adj (x) | NA | NA | NA |
| DPS (c) | 0 | 0 | 0 |
| Div yield (%) | 0 | 0 | 0 |
| FCF yield (%) | 0 | 0 | 0 |

*Prices are intraday 18 May 2016*

*All sources unless otherwise stated: Company data, FactSet, Stifel estimates*


**Olivia Manser** olivia.manser@stifel.com +44 (0) 20 7710 7495
**Max Herrmann** max.herrmann@stifel.com +44 (0) 20 7710 7606
**UK Sales desk** +44 (0) 20 7710 7600



**Stifel does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.**
**All relevant disclosures and certifications appear on pages 5 - 7 of this report.**

# Key data[1]

**Key valuation ratios (x)**

| | 2015A | 2016E | 2017E | 2018E |
|---|---|---|---|---|
| PE adj (x) | NA | NA | NA | NA |
| ROCE (% incl. gross goodwill) | (0.4) | (0.8) | (1.6) | (4.8) |
| Div yield (%) | 0 | 0 | 0 | 0 |

**Key profit and loss data (€)**

| | 2015A | 2016E | 2017E | 2018E |
|---|---|---|---|---|
| Sales (€) | 10.8 | 14.2 | 18.9 | 27.1 |
| EBITDA adj | (13.0) | (9.1) | (7.2) | (3.2) |
| EBIT adj | (13.01) | (9.15) | (7.23) | (3.23) |
| EBIT adj margin (%) | (120.5) | (64.4) | (38.2) | (11.9) |
| Net income | (10.2) | (10.2) | (8.3) | (4.3) |
| EPS adj (c) | (2.4) | (2.5) | (2.0) | (1.1) |
| DPS (c) | 0 | 0 | 0 | 0 |

**Key cash flow data (€)**

| | 2015A | 2016E | 2017E | 2018E |
|---|---|---|---|---|
| Operating profit | (13.0) | (9.1) | (7.2) | (3.2) |
| Depreciation | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Operating cash flow | (16.4) | (9.4) | (7.1) | (3.6) |
| Taxes paid | 0 | 0 | 0 | 0 |
| Net interest | 0.1 | 0 | 0 | 0 |
| Capex | (0.9) | 0 | 0 | 0 |
| Free cash flow | (17.2) | (9.4) | (7.1) | (3.6) |
| Dividends | 0 | 0 | 0 | 0 |
| Change in cash | (16) | (9) | (7) | (4) |
| Net debt | (16.8) | (7.4) | (0.3) | 3.3 |

**Key balance sheet (€)**

| | 2015A | 2016E | 2017E | 2018E |
|---|---|---|---|---|
| Intangible assets | 1 | 1 | 1 | 1 |
| PPE | 6 | 6 | 6 | 6 |
| Cash | 32 | 19 | 9 | 2 |

# Key information

**Target price methodology/risks**

Target price is based on our risk-adjusted product-based NPV valuation.

Risks to the investment include Pharming's reliance on distribution partners to execute commercialisation strategy for Ruconest, along with the risk that market acceptance is lower than expected or unforeseen safety and efficacy issues affect the global growth. Competition may also increase from 2018 onwards, and the increasing tendency of health insurers to reduce costs and reimbursement may provide additional headwind to Ruconest commercialisation.

**Business description**

Pharming is a Dutch biotechnology company with a platform technology for producing recombinant proteins in rabbit milk. The company's lead product, Ruconest, is approved in Europe and the US for the treatment of hereditary angioedema.

**Senior management**

Chairman - Jaap Blaak

Chief Executive Officer - Sijmen de Vries

Chief Operating Officer - Bruno Giannetti

Chief Financial Officer- Robin Wright

**Key dates**

Mid-2016 - Phase II results of Ruconest in prophylaxis HAE

Mid-2016 - Update on pipeline programmes

July/August 2016 - 2Q16 results

**Major shareholders**

Kingdon Capital Management - 2.1%

**Website**

http://www.pharming.com/

[1] *Year end December*
*Data in millions, except per share and percentages*
*Source: Company data, FactSet, Stifel estimates*

**Figure 1: Pharming Income Statement (€m)**

| Year to 31 December | 2015A | 2016E | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| License fees | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Milestones | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Product sales and royalties | 8.6 | 12.0 | 16.7 | 24.9 | 53.3 | 102.0 |
| **Total sales** | **10.8** | **14.2** | **18.9** | **27.1** | **55.5** | **104.2** |
| *%ch* | *-49%* | *32%* | *33%* | *43%* | *105%* | *88%* |
| *COGS %* | *44.5%* | *32.0%* | *29.0%* | *28.0%* | *27.0%* | *26.0%* |
| COGS | (4.8) | (4.5) | (5.5) | (7.6) | (15.0) | (27.1) |
| **Gross profit** | **6.0** | **9.7** | **13.4** | **19.5** | **40.5** | **77.1** |
| SG&A | (4.8) | (4.8) | (5.3) | (5.8) | (6.4) | (7.0) |
| R&D | (14.2) | (14.0) | (15.4) | (16.9) | (18.6) | (20.5) |
| Other | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Operating profit** | **(12.8)** | **(9.1)** | **-7.2** | **-3.2** | **15.5** | **49.6** |
| *Operating margins* | *-118.7%* | *-64.4%* | *-38.2%* | *-11.9%* | *27.9%* | *47.6%* |
| Net interest | 2.8 | (1.1) | (1.1) | (1.1) | (1.1) | (1.1) |
| Exceptionals | | | | | | |
| **PBT** | **(10.0)** | **(10.2)** | **(8.3)** | **(4.3)** | **14.4** | **48.5** |
| *Tax rate* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| Taxation | 0 | 0 | 0 | 0 | 0 | 0 |
| **Profit after tax** | **(10.0)** | **(10.2)** | **(8.3)** | **(4.3)** | **14.4** | **48.5** |
| **Ratios** | | | | | | |
| Adjusted Pretax profit | (10.0) | (10.2) | (8.3) | (4.3) | 14.4 | 48.5 |
| GP | 55.5% | 68.0% | 71.0% | 72.0% | 73.0% | 74.0% |
| SG&A | 44.5% | 33.8% | 27.9% | 21.4% | 11.5% | 6.7% |
| R&D | 131.6% | 98.6% | 81.3% | 62.5% | 33.6% | 19.7% |
| Operating Profit | -118.7% | -64.4% | -38.2% | -11.9% | 27.9% | 47.6% |
| Shares | 408 | 408 | 408 | 408 | 408 | 408 |
| eps (cents) | -2.4 | -2.5 | -2.0 | -1.1 | 3.5 | 11.9 |
| adj. eps (pre-amortisation) | -2.4 | -2.5 | -2.0 | -1.1 | 3.5 | 11.9 |
| dps (cents) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

*Source: Company data, Stifel estimates*

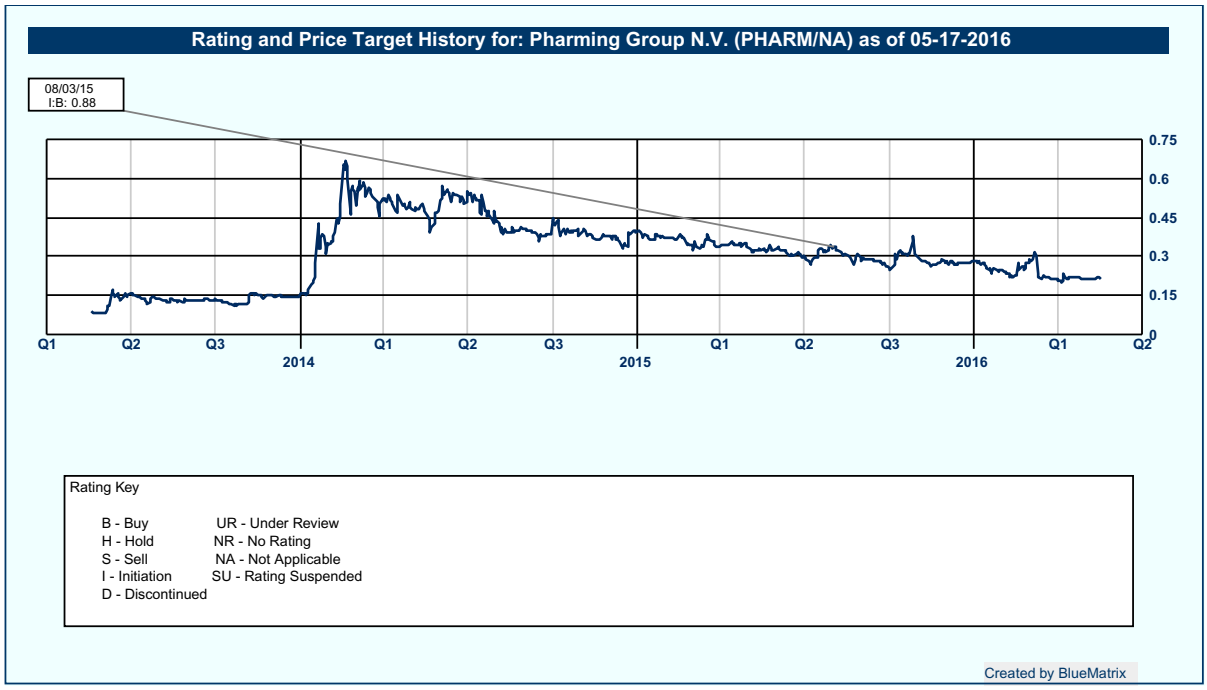
**Figure 2: Pharming cash flow forecasts (€m)**

| Year to 31 December | 2015A | 2016E | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|
| Operating Income | (12.8) | (9.1) | (7.2) | (3.2) | 15.5 | 49.6 |
| add: depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| add: amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Provisions for liabilities & charges | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| less: increase in w.capital | (3.6) | (0.2) | 0.1 | (0.4) | (0.5) | (0.6) |
| Tax paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capex/intangibles | (0.9) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest (net) | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Free Cashflow** | **(17.2)** | **(9.4)** | **(7.1)** | **(3.6)** | **15.0** | **49.0** |
| Other | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Acquisitions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Cashflow** | **(16.0)** | **(9.4)** | **(7.1)** | **(3.6)** | **15.0** | **49.0** |
| **Net cash/(debt)** | **16.8** | **7.4** | **0.3** | **(3.3)** | **11.6** | **60.6** |

*Source: Company data, Stifel estimates*

## Important Disclosures and Certifications

**We, Olivia Manser and Max Herrmann, certify that our respective views expressed in this research report accurately reflect our respective personal views about the subject securities or issuers; and we, Olivia Manser and Max Herrmann, certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. Our European Policy for Managing Research Conflicts of Interest is available at www.stifel.com.**




For a price chart with our ratings and any applicable target price changes for PHARM.NA go to
http://sf.bluematrix.com/bluematrix/Disclosure?ticker=PHARM.NA

Stifel or an affiliate has received compensation for investment banking services from Pharming Group N.V. in the past 12 months.

Stifel or an affiliate expects to receive or intends to seek compensation for investment banking services from Pharming Group N.V. in the next 3 months.

Pharming Group N.V. is provided with investment banking services by Stifel or was provided with investment banking services by Stifel or an affiliate within the past 12 months.

Pharming Group N.V. is a client of Stifel or an affiliate or was a client of Stifel or an affiliate within the past 12 months.

Stifel or an affiliate is a corporate broker and/or advisor to Pharming Group N.V..

The equity research analyst(s) responsible for the preparation of this report receive(s) compensation based on various factors, including Stifel's overall revenue, which includes investment banking revenue.

Our investment rating system is three tiered, defined as follows:

**BUY** -We expect a total return of greater than 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

**HOLD** -We expect a total return between -5% and 10% over the next 12 months with total return equal to the percentage price change plus dividend yield.

**SELL** -We expect a total return below -5% over the next 12 months with total return equal to the percentage price change plus dividend yield.

Occasionally, we use the ancillary rating of **SUSPENDED** (SU) to indicate a long-term suspension in rating and/or target price, and/or coverage due to applicable regulations or Stifel policies. **SUSPENDED** indicates the analyst is unable to determine a "reasonable basis" for rating/target price or estimates due to lack of publicly available information or the inability to quantify the publicly available information provided by the company and it is unknown when the outlook will be clarified. **SUSPENDED** may also be used when an analyst has left the firm.

Of the securities we rate, 50% are rated Buy, 40% are rated Hold, 3% are rated Sell and 7% are rated Suspended.

Within the last 12 months, Stifel or an affiliate has provided investment banking services for 16%, 7%, 7% and 7% of the companies whose shares are rated Buy, Hold, Sell and Suspended, respectively.

## Additional Disclosures

Please visit the Research Page at www.stifel.com for the current research disclosures and respective target price methodology applicable to the companies mentioned in this publication that are within Stifel's coverage universe. For a discussion of risks to target price please see our stand-alone company reports and notes for all Buy-rated and Sell-rated stocks.

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of Stifel, or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed within. Past performance should not and cannot be viewed as an indicator of future performance.

As a multi-disciplined financial services firm, Stifel regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as a placement agent in private transactions.

### Affiliate Disclosures

“Stifel”, includes Stifel Nicolaus & Company (“SNC”), a US broker-dealer registered with the United States Securities and Exchange Commission and the Financial Industry National Regulatory Authority and Stifel Nicolaus Europe Limited (“SNEL”), which is authorized and regulated by the Financial Conduct Authority (“FCA”), (FRN 190412) and is a member of the London Stock Exchange.

**Registration of non-US Analysts:** Any non-US research analyst employed by SNEL contributing to this report is not registered/qualified as a research analyst with FINRA and is not an associated person of the US broker-dealer and therefore may not be subject to FINRA Rule 2241 or NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

### Country Specific and Jurisdictional Disclosures

**United States:** Research produced and distributed by SNEL is distributed by SNEL to “Major US Institutional Investors” as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended. SNEL is a non-US broker-dealer and accordingly, any transaction by Major US Institutional Investors in the securities discussed in the document would need to be effected by SNC. SNC may also distribute research prepared by SNEL directly to US clients that are professional clients as defined by FCA rules. In these instances, SNC accepts responsibility for the content. Research produced by SNEL is not intended for use by and should not be made available to retail clients, as defined by the FCA rules.

**Canadian Distribution:** Research produced by SNEL is distributed in Canada by SNC in reliance on the international dealer exemption. This material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or described herein is available to other persons or to anyone in Canada who is not a “permitted client” as defined under applicable Canadian securities law.

**UK and European Economic Area (EEA):** This report is distributed in the EEA by SNEL, which is authorized and regulated in the United Kingdom by the FCA. In these instances, SNEL accepts responsibility for the content. Research produced by SNEL is not intended for use by and should not be made available to non-professional clients.

**Brunei:** This document has not been delivered to, registered with or approved by the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies, the Brunei Darussalam Ministry of Finance or the Autoriti Monetari Brunei Darussalam. This document and the information contained within will not be registered with any relevant Brunei Authorities under the relevant securities laws of Brunei Darussalam. The interests in the document have not been and will not be offered, transferred, delivered or sold in or from any part of Brunei Darussalam. This document and the information contained within is strictly private and confidential and is being distributed to a limited number of accredited investors, expert investors and institutional investors under the Securities Markets Order, 2013 ("Relevant Persons") upon their request and confirmation that they fully understand that neither the document nor the information contained within have been approved or licensed by or registered with the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies, the Brunei Darussalam Ministry of Finance, the Autoriti Monetari Brunei Darussalam or any other relevant governmental agencies within Brunei Darussalam. This document and the information contained within must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which the document or information contained within is only available to, and will be engaged in only with Relevant Persons.

In jurisdictions where Stifel is not already licensed or registered to trade securities, transactions will only be affected in accordance with local securities legislation which will vary from jurisdiction to jurisdiction and may require that a transaction carried out in accordance with applicable exemptions from registration and licensing requirements. Non-US customers wishing to effect transactions should contact a representative of the Stifel entity in their regional jurisdiction

except where governing law permits otherwise. US customers wishing to effect transactions should contact their US salesperson.

The securities discussed in this report may not be available for sale in all jurisdictions and may have adverse tax implications for investors. Clients are advised to speak with their legal or tax advisor prior to making an investment decision.

**Additional Information is Available Upon Request**

© 2016 Stifel. This report is produced for the use of Stifel customers and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Stifel. Stifel Nicolaus Europe Ltd. 150 Cheapside, London, EC2V 6ET. Registered in England Number 03719559