

Healthcare: BioPharmaceuticals

Pharming Group NV (OTC: PHGUF) | PHARM.AS - €0.31 - AEX | Buy

Analysis of Sales/Earnings

Target Price Changed

Stock Data

52-Week Low - High	€0.15 - €0.37
Shares Out. (mil)	473.97
Mkt. Cap.(mil)	€146.9
3-Mo. Avg. Vol.	8,458,819
12-Mo.Price Target	€1.30
Cash (mil)	€32.1
Tot. Debt (mil)	€66.5
Current Yield	NA

Pricing information reflects data from the securities primary listing, in this case the Amsterdam Exchange.

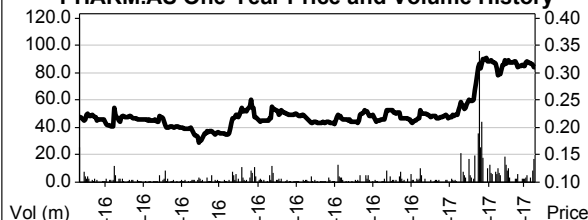
EPS €

Yr Dec	—2015—		—2016—		—2017E—	
			Curr	Prev	Curr	Prev
1Q	0.00A	(0.01)A	(0.01)A	(0.01)A	0.00E	0.00E
2Q	(0.01)A	(0.01)A	(0.01)A	(0.01)A	0.00E	0.00E
3Q	(0.01)A	(0.01)A	(0.01)A	(0.01)A	0.00E	0.01E
4Q	(0.01)A	(0.02)A	(0.01)E	(0.01)E	0.01E	0.01E
YEAR	(0.02)A	(0.04)A	(0.03)E	(0.03)E	0.01E	0.02E

Revenue (€ millions)

Yr Dec	—2015—		—2016—		—2017E—	
			Curr	Prev	Curr	Prev
1Q	1.8A	2.2A	2.2A	10.8E	10.8E	10.8E
2Q	3.5A	3.1A	3.1A	12.4E	13.1E	13.1E
3Q	3.2A	3.4A	3.4A	14.3E	15.6E	15.6E
4Q	2.3A	7.2A	4.5E	16.4E	19.1E	19.1E
YEAR	10.8A	15.9A	13.1E	54.0E	58.6E	58.6E

PHARM.AS One-Year Price and Volume History



PHARM: 4Q16 Recap - Momentum Building into 2017

Pharming reported EPS results that beat on revenues and slightly trailed our EPS targets. We found the results in-line with expectations given that this was expected to be a noisy quarter (as Pharming had full U.S. rights to the HAE treatment Ruconest for only the last month). We maintained our 1Q17 Ruconest target, but reduced to a more conservative ramp going forward. We reiterate our Buy rating with a price target of €1.30 (reduced from €1.50).

- **4Q16 Recap.** Pharming reported revenues of €7.2M versus our target of €4.5M. Recall that this is the quarter with only the last three weeks of U.S. sales booked by Pharming. Thus, there is going to be some noise in the #'s. The higher gross profit offset higher expenses and the operating loss of €2.2M was slightly better than our targeted operating loss of €3.2M. Still, some 1X noise in the financial income resulted in an EPS loss of €0.016 versus our target of €0.009. Overall, we found the quarter within the range of expectations.
- **Takeaway #1 - Ruconest outlook.** Ruconest (treatment for hereditary angioedema or "HAE") appears to be annualizing north of €40M, which is in-line with our expectations. We are comfortable with our 1Q17 Ruconest revenue target of €10.5M, which will be the first full quarter of U.S. Ruconest revenues under the Pharming umbrella. Post 1Q17, we have modestly reduced our Ruconest targets to more conservative #'s as we evaluate the revenue growth post Ruconest acquisition. So far, #'s have reached our targets.
- **Takeaway #2 - Breakeven targeted in ~2Q17.** After reducing Ruconest to more conservative assumptions, we still target approximately breakeven net income in 2Q17 (versus a rounding error profit before). We target profitability in 2H17. We believe that this emergence into a positive cash flow entity is a key inflection point for the company particularly given the debt needed to reacquire the Ruconest asset.
- **Takeaway #3 - Model changes.** More conservative Ruconest targets modestly reduced our EPS forecasts. Model attached.
- **Reiterate Buy rating.** We continue to view Pharming as an emerging pharmaceutical company about to cross the threshold into profitability. As such, we view the company as significantly undervalued and we reiterate our Buy rating. We did reduce our price target to €1.30/share from €1.50/share to reflect our reductions to the EPS outlook.

VALUATION

We value Pharming at €1.30/share. We arrive at this valuation based on applying a ~15X multiple to our forecasted 2020 EPS of €0.17 – and discounting this target by 25%/year for three years. We believe that 15X is a reasonable multiple given a challenging generic pathway and continued growth prospects beyond 2020 (offset somewhat by potential warrant dilution). The largest risk to our forecasts, in our opinion, is the revenue projections for Ruconest.

Impediments to shares not reaching our price target include, but are not limited to, failure of product revenues to match our forecasts.

RISKS

In addition to the risks inherent in developing, manufacturing, and selling pharmaceuticals, key investment risks for Pharming Group include:

- **Clinical trial risk** – Pharming is developing Ruconest for the prophylaxis of HAE. Failure of this clinical data to match expectations could have a material adverse impact on company shares. This includes regulatory correspondence with the FDA.
- **Marketing risk** - Pharming is marketing a product for the first time with Ruconest. Failure of marketing efforts to be successful in-line with expectations could have a material adverse impact on company shares.
- **Forecasting risk** – We forecast substantial revenues for Pharming's Ruconest. Failure of actual revenues to match our forecasts could have a material adverse impact on company shares.
- **Financial risk** – Pharming has considerable debt. Failure to be able to repay or re-finance this debt through normal operations could have a material adverse impact on company shares.

COMPANY DESCRIPTION

Pharming focuses on developing pharmaceutical grade recombinant proteins for therapeutic use, based on its transgenic animal platform. The company produces high yield human-like recombinant proteins from the milk of transgenic rabbits, using its scalable platform. Pharming's lead product is Ruconest, recombinant human C1 esterase inhibitor (rhC1INH), which was approved by the EMA in 2010 for the treatment of an orphan disease, hereditary angioedema (HAE) and approved in the U.S. in July 2014. The drug is commercialized in the E.U. under the name Ruconest in collaboration with Swedish Orphan Biovitrum (SOBI). Pharming re-purchased U.S. rights back from Valeant in 2016 in exchange for \$60M upfront and \$65M in sales milestone. The company is based in The Netherlands.

Pharming Group N.V.																
Quarterly earnings model	FY	FY	1Q16A	2Q16A	3Q16A	4Q16A	FY	1Q17E	2Q17E	3Q17E	4Q17E	FY	FY	FY	FY	FY
Values in €000's	2014 A	2015 A					2016 A					2017 E	2018 E	2019 E	2020 E	2021 E
Revenues:																
Proforma revenues			5,800	6,600	8,100	9,500	30,000									
WW product sales	2,996	8,621	1,662	2,508	2,864	6,655	13,689	10,494	12,243	14,141	16,197	53,075	92,689	132,937	189,338	270,720
Amortised license fee income	18,190	2,207	552	552	552	528	2,184	300	200	200	200	900	150	50	50	50
Net revenues	21,186	10,828	2,214	3,060	3,416	7,183	15,873	10,794	12,443	14,341	16,397	53,975	92,839	132,987	189,388	270,770
Cost of product sales	3,427	4,800	657	1,138	1,227	1,452	4,474	1,049	1,224	1,414	1,620	5,308	8,805	12,496	17,608	24,906
% of product sales	114.4%	55.7%	39.5%	45.4%	42.8%	21.8%	32.7%	10.0%	10.0%	10.0%	10.0%	10.0%	9.5%	9.4%	9.3%	9.2%
Inventory impairments	-	-	-	209	-	-	209	-	-	-	-	-	-	-	-	-
Gross profit	17,759	6,028	1,557	1,713	2,189	5,731	11,190	9,745	11,219	12,927	14,777	48,668	84,034	120,491	171,780	245,864
Other income	105	147	126	69	70	70	335	50	50	50	50	200	200	200	200	200
Research and development	11,663	14,180	3,695	3,334	4,051	4,308	15,388	4,350	4,350	4,350	4,450	17,500	18,500	20,000	22,500	25,000
General and administrative	3,324	3,744	941	1,108	1,071	1,522	4,642	1,600	1,650	1,650	1,750	6,650	7,000	7,500	8,000	8,500
Marketing and sales	-	1,085	217	381	313	2,124	3,035	4,250	4,250	4,250	4,450	17,200	18,000	19,500	20,500	23,500
Costs	14,987	19,009	4,853	4,823	5,435	7,954	23,065	10,200	10,250	10,250	10,650	41,350	43,500	47,000	51,000	57,000
Operating results	2,877	(12,834)	(3,170)	(3,041)	(3,176)	(2,153)	(11,540)	(405)	1,019	2,727	4,177	7,518	40,734	73,691	120,980	189,064
FV derivative adjustment	(9,106)	3,380	367	88	(44)	(332)	79	-	-	-	-	-	-	-	-	-
Other financial income and (expenses)	462	(503)	(582)	(396)	(485)	(4,612)	(6,075)	(1,075)	(1,075)	(1,075)	(1,075)	(4,300)	(4,300)	(4,300)	(4,300)	(4,300)
Pretax income	(5,767)	(9,957)	(3,385)	(3,349)	(3,705)	(7,097)	(17,536)	(1,480)	(56)	1,652	3,102	3,218	36,434	69,391	116,680	184,764
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24,269	57,277
tax rate								0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	20.8%	31.0%
Net income	(5,767)	(9,957)	(3,385)	(3,349)	(3,705)	(7,097)	(17,536)	(1,480)	(56)	1,652	3,102	3,218	36,434	69,391	92,410	127,487
EPS	(0.014)	(0.024)	(0.008)	(0.008)	(0.009)	(0.016)	(0.041)	(0.003)	(0.000)	0.003	0.006	0.006	0.070	0.130	0.170	0.230
Shares outstanding	407,687	411,972	412,505	412,555	412,605	455,587	423,313	456,587	531,587	532,587	533,587	513,587	523,587	533,587	543,587	553,587

Source: ROTH Capital Partners and SEC filings

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Pharming Group N.V. Ruconest U.S. model										
Quarter	Acute Market	sequential mkt growth rate	Ruconest Share	Ruconest Acute revenues	Prophylaxis Market	Market growth rate	Ruconest Share	Ruconest Prophylaxis revenues	Combined Ruconest revenues	Annual sales
1Q16	€ 200,000		2.76%	€ 5,510	€ 150,000		0.00%	-	€ 5,510	
2Q16	€ 205,000		3.06%	€ 6,270	€ 150,000		0.00%	-	€ 6,270	
3Q16	€ 215,000		3.58%	€ 7,695	€ 150,000		0.00%	-	€ 7,695	
4Q16	€ 217,500		4.15%	€ 9,025	€ 150,000		0.00%	-	€ 9,025	€ 28,500
1Q17	€ 220,000	5%	4.50%	€ 9,900	€ 157,500	5%	0.00%	-	€ 9,900	
2Q17	€ 231,000	5%	5.00%	€ 11,550	€ 165,375	5%	0.00%	-	€ 11,550	
3Q17	€ 242,550	5%	5.50%	€ 13,340	€ 173,644	5%	0.00%	-	€ 13,340	
4Q17	€ 254,678	5%	6.00%	€ 15,281	€ 182,326	5%	0.00%	-	€ 15,281	€ 50,071
1Q18	€ 264,865	4%	7.00%	€ 18,541	€ 189,619	4%	0.00%	-	€ 18,541	
2Q18	€ 275,459	4%	7.50%	€ 20,659	€ 197,204	4%	0.00%	-	€ 20,659	
3Q18	€ 286,478	4%	8.00%	€ 22,918	€ 205,092	4%	0.00%	-	€ 22,918	
4Q18	€ 297,937	4%	8.50%	€ 25,325	€ 213,296	4%	0.00%	-	€ 25,325	€ 87,443
1Q19	€ 306,875	3%	9.00%	€ 27,619	€ 219,694	3%	0.00%	-	€ 27,619	
2Q19	€ 316,081	3%	9.50%	€ 30,028	€ 226,285	3%	0.00%	-	€ 30,028	
3Q19	€ 325,563	3%	10.00%	€ 32,556	€ 233,074	3%	0.00%	-	€ 32,556	
4Q19	€ 335,330	3%	10.50%	€ 35,210	€ 240,066	3%	0.00%	-	€ 35,210	€ 125,412
1Q20	€ 345,390	3%	11.00%	€ 37,993	€ 247,268	3%	0.25%	€ 618	€ 38,611	
2Q20	€ 355,752	3%	11.50%	€ 40,911	€ 254,686	3%	0.50%	€ 1,273	€ 42,185	
3Q20	€ 366,425	3%	12.00%	€ 43,971	€ 262,327	3%	1.00%	€ 2,623	€ 46,594	
4Q20	€ 377,417	3%	12.50%	€ 47,177	€ 270,196	3%	1.50%	€ 4,053	€ 51,230	€ 178,620
1Q21	€ 388,740	3%	13.00%	€ 50,536	€ 278,302	3%	2.00%	€ 5,566	€ 56,102	
2Q21	€ 400,402	3%	13.50%	€ 54,054	€ 286,651	3%	2.50%	€ 7,166	€ 61,221	
3Q21	€ 412,414	3%	14.00%	€ 57,738	€ 295,251	3%	3.00%	€ 8,858	€ 66,595	
4Q21	€ 424,786	3%	14.50%	€ 61,594	€ 304,108	3%	3.25%	€ 9,884	€ 71,478	€ 255,396
1Q22	€ 437,530	3%	15.00%	€ 65,630	€ 313,232	3%	3.50%	€ 10,963	€ 76,593	
2Q22	€ 450,656	3%	15.50%	€ 69,852	€ 322,629	3%	3.75%	€ 12,099	€ 81,950	
3Q22	€ 464,176	3%	16.00%	€ 74,268	€ 332,308	3%	4.00%	€ 13,292	€ 87,560	
4Q22	€ 478,101	3%	16.50%	€ 78,887	€ 342,277	3%	4.25%	€ 14,547	€ 93,433	€ 339,537

Source: ROTH Capital Partners estimates

Pharming Group N.V. Pipeline analysis

	2016A				2017E				2018E				2019E				2020E			
	1QA	2QA	3QA	4QA	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE
Ruconest - Prophylaxis of HAE																				
Phase 2			DATA		1X/week and 2X/week															
FDA meeting					May be able to file on P2															
Pivotal																				
File																				
Fast IV																				
Sub-Q/Intramuscular																				
Oral version																				
Pompe disease																				
Phase 1																				
Fabry disease																				
Phase 1																				
Undisclosed antibody																				
Phase 1																				

Source: Company reports and ROTH Capital Partners estimates

Pharming Group N.V.

Balance Sheet

 Net cash (34,394)
 Per share (€ 0.08)

Values in €000's

	2014	2015	2016
ASSETS			
Cash and equivalents	34,185	31,643	31,889
Trade and other receivables	1,554	3,220	12,360
Inventories	13,404	16,229	17,941
Total current assets	49,143	51,092	62,190
Intangible assets, net	777	724	56,680
Property, plant and equipment	5,598	5,661	6,043
Long-term prepayment			1,622
Restricted cash	200	200	248
TOTAL ASSETS	55,718	57,677	126,783
LIABILITIES AND SHAREHOLDERS EQUITY			
Loans and borrowing	-	3,047	26,136
Deferred license fees income	2,200	2,207	943
Derivative financial liabilities	4,266	953	9,982
Trade and other payables	7,781	7,005	14,054
Finance lease liabilities	626	263	263
Total current liabilities	14,873	13,475	51,378
Loans and borrowings	-	11,757	40,395
Deferred license fees income	10,022	7,808	2,270
Finance lease liabilities	965	798	599
Other liabilities	15	-	4,674
Total Liabilities	25,875	33,838	99,316
Share capital	4,077	4,120	4,556
Share premium	282,260	283,396	301,876
Legal reserves	36	66	60
Accumulated deficit	(256,530)	(263,743)	(279,025)
Total Shareholders equity	29,843	23,839	27,467
Total liabs and SE	55,718	57,677	126,783

Source: SEC filings

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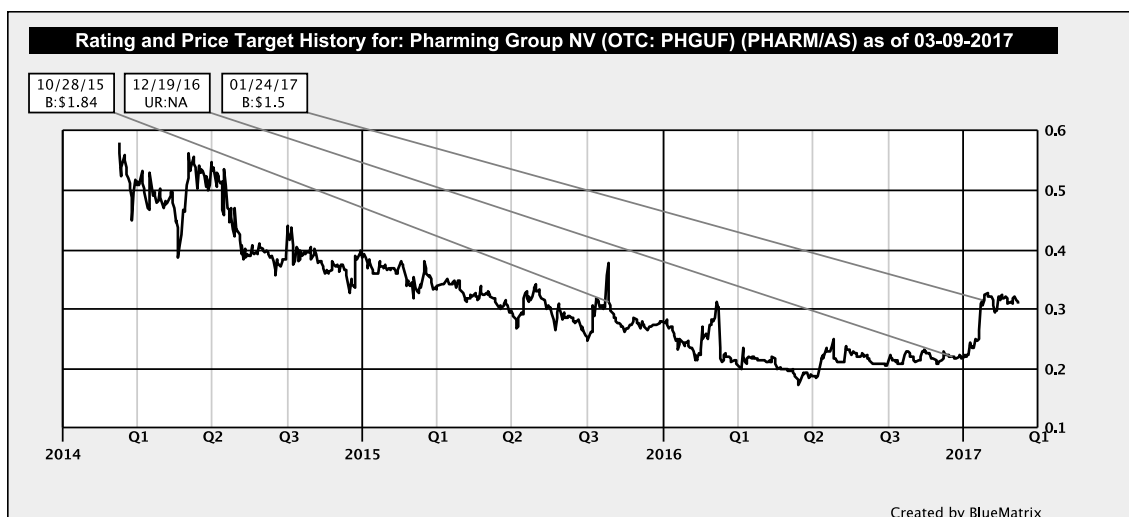
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Within the last twelve months, ROTH has received compensation for investment banking services from Pharming Group NV (OTC: PHGUF).

Shares of Pharming Group NV (OTC: PHGUF) may not be eligible for sale in one or more states.

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Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 03/10/17	
			Count	Percent
Buy [B]	226	69.54	114	50.44
Neutral [N]	44	13.54	22	50.00
Sell [S]	7	2.15	3	42.86
Under Review [UR]	47	14.46	32	68.09

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

Ratings System Definitions - ROTH employs a rating system based on the following:

Buy: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return of at least 10% over the next 12 months.

Neutral: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

Sell: A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

Under Review [UR]: A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

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