

## FY16 results demonstrate benefit of regaining Ruconest

*Pharming's first financial results since regaining US rights to Ruconest from Valeant, in our view demonstrate how transformational that transaction is likely to prove. Product sales/royalties on Ruconest of €13.7m in FY16 beat our €10.5m estimate, while the operating loss of €11.5m was lower than our €13m forecast, and better than a €12.8m loss in FY15, despite the additional costs related to the deal and taking over US commercials. We are encouraged by the current US sales run-rate for Ruconest and expect further growth in 2017 as Pharming fully implements a larger and more sophisticated US sales force. We maintain our \$51m sales forecast for Ruconest in 2017, but acknowledge potential for upgrades through the year. Reiterate Buy.*

**FY16 results – beat across the board (sales and operating/net loss).** Total FY16 revenues of €15.9m, comprised of Ruconest sales/royalties of €13.7m and €2.2m non-cash licence fees, beat our estimate (€12.7m), due to higher Ruconest revenues. The operating loss of €11.5m, which includes the additional costs of the Valeant deal and taking over commercial operations in the US (albeit from December only), was still an improvement on FY15 (€12.8m loss) and better than our estimate (€13m). The net loss widened to €17.5m in FY16, vs €10m in FY15, but was due to the one-off costs of the deal – we estimate €8m in exceptional costs (€2m transaction fees + €6m finance fees), which we note accounts for the additional loss in FY16.

**Optimising Ruconest.** The main premise for re-acquiring US rights to Ruconest from Valeant was to markedly improve the sales and marketing effort behind the product (to be more competitive to its peers in the HAE market, namely Shire), while benefiting 100% from upside performance (previously limited to 30% effective royalty on US sales). Aside from adding to Valeant's 11 existing sales staff on Ruconest, Pharming is also in the process of recruiting and training medical science liaison personnel and patient access managers, seen as key to gaining appropriate engagement of patient and physician communities in HAE. We expect these initiatives to build on an already encouraging sales run-rate for Ruconest, which according to IMS data resulted in \$11m gross sales in Q416, vs \$7.9m in Q316 and \$4.9m in Q415. We maintain our prior \$51m sales forecast for Ruconest in 2017, but acknowledge potential for upgrades through the year.

**FDA discussions ongoing over next steps in prophylactic setting.** Recall Pharming reported compelling Phase II data from a 32-patient study using Ruconest for the prophylactic treatment of HAE. The outcomes (96% response rate with twice-weekly dosing) and trial design (similar to Cinryze's pivotal study in 22 patients) suggest to us that Pharming has a strong case for seeking conditional approval on the Phase II data, although our current assumption is that a Phase III trial will be required. Discussions with the FDA are ongoing and we expect a resolution by mid-2017.

**Reiterate Buy rating and €0.66 target price,** with Pharming seemingly on track to achieve operational profitability in 2017. We have made modest adjustments to our financial forecasts (overleaf) on FY16 results, and expect the company to be EBITDA positive (€2.6m) in FY17, which could also prove to be conservative. Recall that prior to regaining US Ruconest rights, profitability was unlikely until 2019.

Price (9 March 2017)			€0.31
<u>Changes</u>	Previous	Current	
Rating	-	BUY	
Target Price	-	€0.66	

### Share price performance (indexed)



### Key data

Bloomberg/Reuters codes:	PHARM NA / PHAR.AS
Market cap (€m)	143
Amsterdam Stock	729
Exchange Amsterdam	
Midcap Index	
1mth perf (%)	6.5
3mths perf (%)	36.1
12mths perf (%)	4.4
12mth high-low (€)	0 - 0
Free float (%)	97

### Key financials

Year to Dec	2015A	2016A	2017E
Sales (€)	10.8	15.9	47.5
EBIT adj	(13.00)	(11.88)	2.58
EBIT margin (%)	(120.1)	(74.8)	(2.4)
EPS adj (c)	(0.0)	(0.0)	(0.0)
EV/EBITDA (x)	--	--	--
PE adj (x)	NA	NA	NA
Div yield (%)	0	0	0
FCF yield (%)	0	0	0

Prices are as of 12:04 GMT, 9 March 2017

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

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## Key data<sup>1</sup>

### Key valuation ratios (x)

	2015A	2016A	2017E	2018E
PE adj (x)	NA	NA	NA	39.4
ROCE (% incl. gross goodwill)	(0.4)	(0.6)	(1.3)	(1.1)
Div yield (%)	0	0	0	0

### Key profit and loss data (€)

	2015A	2016A	2017E	2018E
Sales (€)	10.8	15.9	47.5	66.3
EBITDA adj	(13.0)	(11.1)	12.6	22.0
EBIT adj	(13.00)	(11.88)	2.58	11.96
EBIT adj margin (%)	(120.1)	(74.8)	5.4	18.1
Net income	(10.2)	(17.9)	(5.3)	3.7
EPS adj (c)	(0.0)	(0.0)	(0.0)	0.0

### Key cash flow data (€)

	2015A	2016A	2017E	2018E
Operating profit	(13.0)	(11.9)	(1.1)	7.9
Depreciation	0	0	0	0
Other	2	0	0	0
Operating cash flow	(16.4)	(10.1)	3.3	12.2
Taxes paid	0	0	0	0
Net interest	0.1	0.0	(4.2)	(4.2)
Capex	(0.9)	(1.2)	(1.2)	(1.2)
Free cash flow	(17.2)	(11.3)	(2.1)	6.8
Change in cash	(17)	(58)	(2)	7
Net debt	(16.8)	34.6	36.6	29.8

### Key balance sheet (€)

	2015A	2016A	2017E	2018E
Intangible assets	1	57	48	39
PPE	6	6	6	6
Cash	32	32	25	4

## Key information

### Target price methodology/risks

Our €0.66 per share target price is based on a risk-adjusted product-based NPV valuation.

Risks to the investment include Pharming's ability to successfully execute the US promotional strategy on Ruconest, and that market acceptance will be lower than expected (or unforeseen safety and efficacy issues impact Ruconest). Competition may also increase from 2018 onwards (new prophylactic treatments), 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 (HAE).

### Senior management

Chairman - Jaap Blaak

Chief Executive Officer - Sijmen de Vries

Chief Operating Officer - Bruno Giannetti

Chief Financial Officer- Robin Wright

### Key dates

1H17 - End of Phase II meeting with FDA to discuss next steps for Ruconest in prophylactic indication

17 May 2017 - Q117 results

27 July 2017 - H117 results

26 October 2017 - 9M17 results

### Major shareholders

Kingdon Capital Management - 1.84%

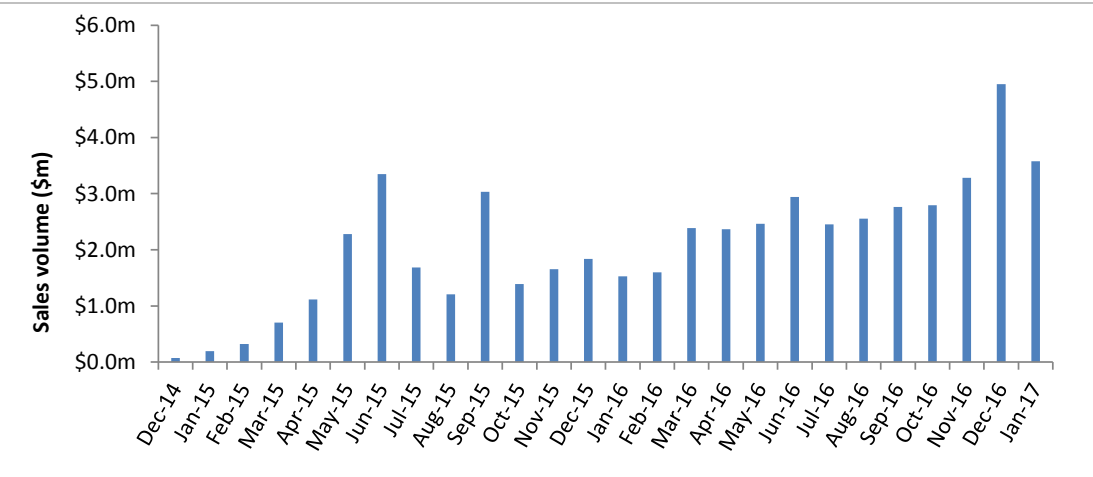
### Website

<http://www.pharming.com/>

<sup>1</sup> Year end December

Data in millions, except per share and percentages  
Source: Company data, FactSet, Stifel estimates

Figure 1: Ruconest monthly US gross sales (\$m) – IMS data



Source: IMS

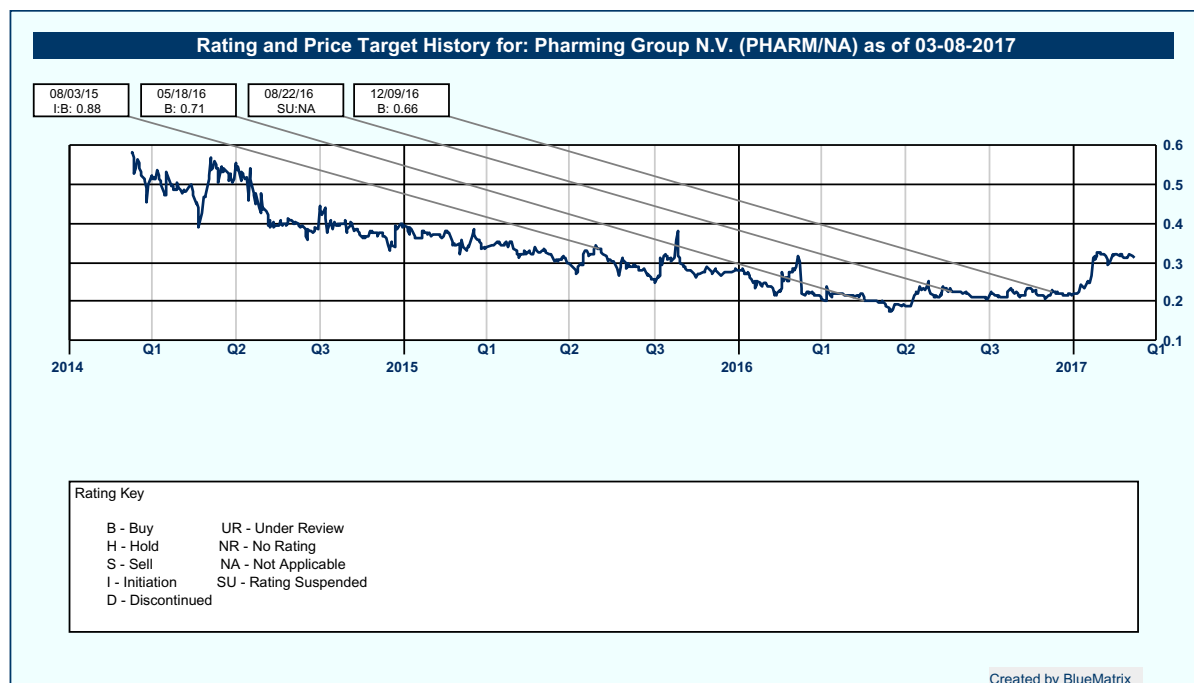
Figure 2: Pharming P&amp;L forecast (€m)

Year to 31 December	2015A	2016A	2017E	2018E	2019E	2020E	2021E	2022E
€m								
License fees	2.2	2.2	1.1	0.8	0.8	0.8	0.0	0.0
Milestones	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Product sales and royalties	8.6	13.7	46.4	65.5	113.6	163.6	213.6	254.5
<b>Total sales</b>	<b>10.8</b>	<b>15.9</b>	<b>47.5</b>	<b>66.3</b>	<b>114.4</b>	<b>164.4</b>	<b>213.6</b>	<b>254.5</b>
%ch	-49%	47%	199%	40%	73%	44%	30%	19%
COGS %	44.3%	29.5%	15.0%	12.0%	10.0%	10.0%	10.0%	10.0%
COGS	(4.8)	(4.7)	(7.1)	(8.0)	(11.4)	(16.4)	(21.4)	(25.5)
<b>Gross profit</b>	<b>6.0</b>	<b>11.2</b>	<b>40.3</b>	<b>58.3</b>	<b>103.0</b>	<b>148.0</b>	<b>192.3</b>	<b>229.1</b>
General and admin	(3.7)	(4.6)	(5.8)	(6.6)	(11.4)	(16.4)	(19.2)	(22.9)
Marketing and sales	(1.1)	(3.0)	(15.0)	(20.3)	(34.3)	(49.3)	(64.1)	(76.4)
R&D	(14.2)	(15.4)	(16.9)	(19.5)	(18.5)	(16.6)	(21.4)	(25.5)
Amortisation	0.0	0.0	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Other	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating profit</b>	<b>(12.8)</b>	<b>(11.5)</b>	<b>(0.4)</b>	<b>9.0</b>	<b>35.7</b>	<b>62.6</b>	<b>84.6</b>	<b>101.4</b>
Operating margins	-118.2%	-72.7%	-0.9%	13.5%	31.2%	38.1%	39.6%	39.8%
Net interest	2.8	(6.0)	(4.2)	(4.2)	(4.2)	(2.4)	0.0	0.0
Exceptionals			(3.7)	(4.0)	(4.4)	(3.2)	(1.9)	0.0
<b>PBT</b>	<b>(10.0)</b>	<b>(17.5)</b>	<b>(8.3)</b>	<b>0.7</b>	<b>27.1</b>	<b>57.0</b>	<b>82.7</b>	<b>101.4</b>
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Taxation	0	0	0	0	0	0	0	0
<b>Profit after tax</b>	<b>(10.0)</b>	<b>(17.5)</b>	<b>(8.3)</b>	<b>0.7</b>	<b>27.1</b>	<b>57.0</b>	<b>82.7</b>	<b>101.4</b>
<i>Ratios</i>								
<b>EBITDA</b>	<b>(12.8)</b>	<b>(10.8)</b>	<b>2.6</b>	<b>12.0</b>	<b>38.7</b>	<b>65.6</b>	<b>87.6</b>	<b>104.4</b>
GP	55.7%	70.5%	85.0%	88.0%	90.0%	90.0%	90.0%	90.0%
SG&A	34.6%	29.2%	12.3%	10.0%	10.0%	10.0%	9.0%	9.0%
R&D	131.1%	96.9%	35.7%	29.4%	16.2%	10.1%	10.0%	10.0%
Operating Profit	-118.2%	-72.7%	-0.9%	13.5%	31.2%	38.1%	39.6%	39.8%
Shares	408	416	472	472	472	472	472	472
<b>EPS (€)</b>	<b>(0.02)</b>	<b>(0.04)</b>	<b>(0.02)</b>	<b>0.00</b>	<b>0.06</b>	<b>0.12</b>	<b>0.18</b>	<b>0.21</b>
adj. EPS (pre-amortisation)	(0.02)	(0.04)	(0.01)	0.01	0.06	0.13	0.18	0.22
DPS (€)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data; Stifel estimates

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