

New stock issue lowers Amortising Bond outstanding

In the wake of +40% share price appreciation since December when Pharming re-financed and took back US rights to Ruconest, the company has issued 10.8m new shares to reduce the amount of Amortising Bonds outstanding from €45m to €41.9m. Over the same period, the AEX Health Care Financial index is up 4%. With monthly repayments of the bond due to commence on 1 February, this effectively reduces the cash required to pay down this debt, allowing more of current cash reserves available (c.€34m) to invest into the US sales and marketing effort behind Ruconest. With 100% US economics on Ruconest now driving the company, on our forecasts, to an operating profit in FY17, and plenty of headroom for substantial US sales growth in the HAE market, we believe the shares remain undervalued. Reiterate Buy.

Amortising Bond (AB) lowered to €41.9m from €45m. Recall this bond was one component of the €103.9m equity/convertible bond/debt issue completed in December. The interest-free AB is due to be re-paid, starting 1 February, in 16 equal monthly instalments, in cash or shares, at a conversion price of €0.289 per share. With some AB holders having opted to convert, resulting in 10.8m new shares being issued, the amount of AB outstanding has been reduced by €3.1m, meaning the monthly repayment schedule has been lowered to €2.6m vs. €2.8m previously.

No changes to our €0.66 target price. As described in our [resumption of coverage](#) note, our target price included the potential impact from changes in shares, cash and debt on conversion of the €12.5m Ordinary Bond and all warrants granted (all currently 'in the money' at €0.284 strike price). For reference, the full conversion of the €45m AB into shares would imply an NPV of €0.59/share, although the company would clearly benefit operationally from retaining greater cash for investment behind Ruconest.

Focus on driving US Ruconest sales. Pharming took over Valeant's 11 person sales staff on Ruconest in December, and is aiming to double this over 2017, including the important addition of medical science liaison personnel and patient access managers. We see plenty of room for a revitalised sales effort driving Ruconest sales growth within the current acute HAE treatment market, with the prospect of gaining FDA approval for prophylactic use by 2019, potentially earlier on the back of compelling Phase II data. Pharming will meet with the FDA in the coming months to discuss next steps. We forecast peak Ruconest sales of \$170m in acute, and \$150m in prophylactic, settings.

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.

Christian Glennie	christian.glennie@stifel.com	+44 (0) 20 7710 7454
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

Price (26 January 2017)	€0.29
Rating	BUY
Target Price	€0.66
Bloomberg/Reuters codes:	PHARM NA / PHAR.AS
Market cap (€m)	132

Key financials

Year to Dec	2015A	2016E	2017E
Sales (€)	10.8	12.7	48.6
EBIT adj	(13.00)	(12.04)	7.06
EBIT margin (%)	(120.1)	(179.1)	6.9
EPS adj (c)	(0.0)	(0.1)	(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 09:53 GMT, 26 January 2017

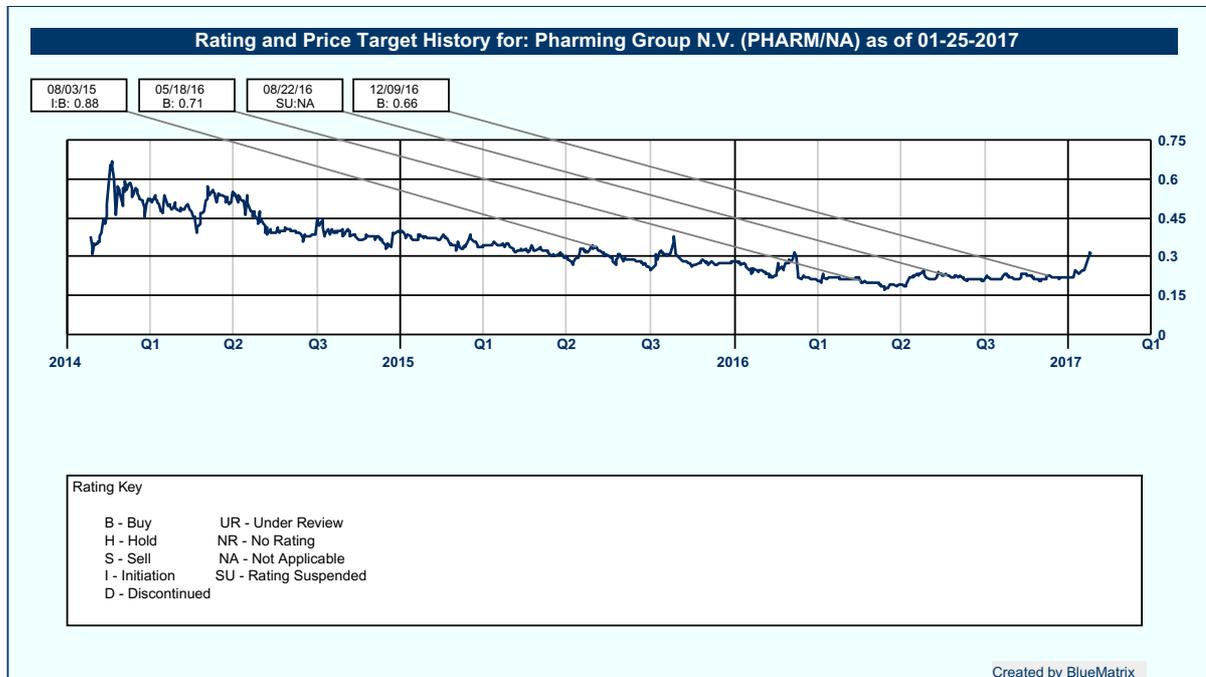
All sources unless otherwise stated: Company data, FactSet, Stifel estimates

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