



Research Note

Pharming Group

Strong Third Quarter, Much More to Come!



Chief Research Analyst

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Date: 30 October 2017

Name:	Pharming Group
Country:	The Netherlands
Price:	EUR 0.81
ISIN Code:	NL0010391025
Reuters Code:	PHARM.AS
Market Cap (EUR m):	409.5
EV (EUR m):	237.1
Cash & cash eq. (EUR m):	38.6
Shares outstanding (m):	505.6
Volume:	24.7 million
Free float:	98%
52-week Range:	0.21-0.85

	2016A	2017E	2018E
Total Revenues	15.9	89.9	138.0
Net (Loss)/Profit	(17.5)	(19.6)	49.3
Net loss per share (cents)	(4.2)	(3.9)	8.1
R&D costs	15.4	17.0	19.0
Cash increase/(decrease)	(0.2)	12.9	20.0
Cash and marketable sec.	32.1	45.0	65.0



2017Q3 Figures: Ongoing Strong Revenue Growth: +73% q-o-q

Pharming Group published its 2017Q3 figures which were much better compared to our expectations. Total revenues increased 73% q-o-q to EUR 25.9 million (2017Q2: EUR 14.9 million). Operating profit in the first nine months came in at EUR 12.7 million compared to an operating loss of EUR 9.4 million in the same period last year. Net loss in the first nine months amounted to EUR 37.7 million compared to EUR 10.4 in the same period last year. The loss includes EUR 14 million relating to fair value adjustments for the Ordinary Bonds. Without these adjustments, the company would have achieved a net profit this quarter of EUR 6.5 million.

Positive cash flows during 2017Q3, driven by increasing revenues, together with the proceeds from warrant exercises, resulted in an increase in the cash position to EUR 38.6 million from EUR 25.2 million at June 30 2017 (EUR 17.0 million at 30 September 2016).

The company expects that 2017FY revenues from product sales will exceed analyst forecasts with product sales in 2017Q4 to exceed 2017Q3 significantly. This will partly be due to the acute shortages of HAE medication in the US. This is the result of manufacturing issues with the plasma derived products that are on the market (particularly Cinryze from Shire). 100% of Cinryze supply is still being produced by Amsterdam based CMO Sanquin. Earlier this year, Shire announced that it wants to produce 30% of its Cinryze supply in its own manufacturing facilities. The expected increase in product sales of Pharming's RUCONEST, will have a positive effect on the 2017Q4 results.

Product sales estimates for 2018 will already be reached this year

Following the improved sales outlook for RUCONEST, we have increased our estimates considerably. We now expect the company to generate product sales for 2017FY of EUR 90 million with a potential upside towards EUR 100 million. In our previous estimates we expected



Pharming to reach this sales in 2018. Also for the coming years we have increased our outlook for both revenues and profit. We now expect the company to reach net profitability in 2017Q4. For 2018FY we estimate revenues to reach EUR 136 million and a net profit of EUR 50 million. Pharming will therefore be the first Dutch biotechnology company ever to reach sustainable profit growth derived from the company's proprietary platform.

Profit & Loss Statement

EUR million	2016A	2017E	2018E	2019E
Total Revenues	16.2	89.9 Δ	138.0 Δ	171.6 Δ
Cost of Sales	4.7	11.5	15.0	17.1
Gross Profit	11.5	78.4Δ	123.0Δ	154.5Δ
R&D Costs	15.4	17.0	19.0	20.0
G&A Costs	4.6	6.5	7.5	8.5
Marketing & Sales	3.0	24.0 Δ	30.7 Δ	31.6 Δ
Operating Profit	(11.9)	30.4Δ	65.3Δ	93.9Δ
Financial Income/(Expenses)	(6.0)	(50.0) Δ	(16.0)	(15.0)
Net Profit/(Loss)	(17.9)	(19.6)Δ	49.3Δ	78.9Δ

Source: Van Leeuwenhoek

Valuation Revised Upwards: From EUR 1.54 per share to EUR 1.88

Based on our NPV based valuation, we believe that Pharming is substantially undervalued at the current share price of EUR 0.81. We have increased our valuation for the company taking into account higher than expected future revenues from RUCONEST® for both acute and prophylactic use. the company's current total value should increase from EUR 940 million to EUR 1,143 million, which translates, based on an expected number of outstanding shares of approximately 609 million, into EUR 1.88 per share. At this moment, we do not address value to other programs in Pharming's pipeline. This conservative approach offers potential upside for the share price.



Valuation RUCONEST® in Acute and Prophylactic HAE

In estimating a value for RUCONEST®, we took into account potential markets in the US and Europe with the US market calculated to be 75-85% of the total market. We calculate a Risk adjusted Discount Rate of 8%. For RUCONEST® for prophylactic use we go with a LOA of 80% and a market launch in 2020 in the US. Pricing per attack is set at USD 10,000 with an average of 25 attacks per year. We calculate a net margin rising to 60% within a few years. We estimate that a peak market share of 20-25% for acute HAE and 15% for prophylactic HAE should be possible.

Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Market Size US Acute HAE	864	907	943	991	1040	1092	1147	1204	1264	1328	1394
Penetration	10.0%	15.0%	18.0%	20.0%	22.0%	23.0%	24.0%	25.0%	25.0%	24.0%	23.0%
Market Size US Prophylactic	850	875	901	928	956	985	1014	1045	1076	1109	1142
Penetration	0.0%	0.0%	0.0%	1.0%	2.0%	3.5%	5.0%	8.0%	10.0%	12.5%	15.0%
Total Revenue US&EU (USDm)	89.3	139.1	173.8	212.0	253.4	291.7	333.1	390.2	429.7	459.7	486.1
Margin up to 60%	-19.6	51.0	81.3	114.0	147.4	164.2	153.3	175.0	187.8	195.3	202.0
WACC 8%	1.00	0.93	0.86	0.79	0.74	0.68	0.63	0.58	0.54	0.50	0.46
NPV (million)	-19.6	47.2	52.5	90.5	93.7	94.7	96.6	102.1	101.5	97.7	93.6
Total NPV (million)											1,143.3
Value per share (EUR)											1.88



Analyst: Marcel Wijma MSc

Marcel Wijma, Chief Research Officer and managing partner, has a longstanding history in financial biotech research. After selling Van Leeuwenhoek Research (VLR) to SNS Securities in 2006, he established an award winning analyst team in biotech/life sciences at SNS Securities. In 2009, Marcel was awarded by Financial Times/Starmine as being one of the Top-3 biotech analysts in Europe. Later that year, Marcel purchased VLR from SNS Securities after which the company was reconstituted. At VLR, he leads the professional VLR research organisation, which is augmented by selected external financial researchers with a specialisation in Life Sciences. Mr. Wijma has a Masters degree in Financial Economics from Erasmus University in Rotterdam.

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