

Pharming Group NV

Netherlands / Biotechnology

Primary exchange: Euronext Amsterdam /

Secondary exchange: Frankfurt

Bloomberg: PHARM NA

ISIN: NL0000377018

9M 2013
Results

RATING	BUY
PRICE TARGET	€0.70
Return Potential	363.6%
Risk Rating	High

FDA RESPONSE TO RUCONEST BLA EXPECTED BY MID-APRIL

Pharming published 9M 2013 results on 7 November. Even though operating expenditures were lower than we had anticipated, the company's 9M development was in line with our expectations. Based on the October capital increase, Pharming should be sufficiently funded until the US Food and Drug Administration (FDA) approval of lead compound Ruconest. The company and its US partner Santarus expect that the FDA will respond to the Ruconest BLA (Biologics License Application) by 16 April 2014. Our updated pipeline valuation model yields an unchanged price target of EUR0.70. We reiterate our Buy recommendation.

OPEX lower and financing costs higher than expected In 9M 2013, sales (including a EUR3.8m milestone payment from partner Santarus - see our comment dated 9 September) came in at EUR6.0m (FBe: EUR6.0m; 9M/12: EUR2.4m). Following FY 2012's restructuring programme and lower Ruconest project costs operating expenditures (OPEX) decreased to EUR9.3m (9M/12: EUR17.9m). Since OPEX were lower than we had anticipated (FBe: EUR10.2m), Pharming's EBIT of EUR-3.7m (FBe: EUR-4.6m; 9M/12: EUR-18.7m) beat our estimate. Pharming's financial result came in at EUR-7.4m (FBe: EUR-7.1m; 9M/12: EUR-5.5m) due mainly to expenses related to the FY 2013 bonds. Net income for the period amounted to EUR-11.1m (FBe: EUR-11.7m; 9M/12: EUR-24.2m).

Pro-forma cash position of EUR22.6m In 9M operating cash flow (including exceptional items such as restructuring expenses of EUR1.3m) was EUR-7.1m (9M/12: EUR-11.6m). Due mainly to the issuance of the EUR16.35m convertible bond at the beginning of the year (see our comment dated 4 February), net cash flow for the period amounted to EUR7.3m (9M/12: EUR-2.5m). Cash and cash equivalents (excluding restricted cash) were EUR12.7m (end of FY12: EUR5.3m) at the end of September 2013. As of the end of 9M, the equity position was still negative (EUR-1.6m vs. EUR-7.7m at the end of FY12). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2011	2012	2013E	2014E	2015E	2016E
Revenue (€m)	3.20	10.86	8.15	19.69	13.48	58.28
Y-o-y growth	n.a.	240.0%	-25.0%	141.5%	-31.5%	332.3%
EBIT (€m)	-18.50	-17.46	-5.99	3.30	-3.90	39.37
EBIT margin	-5.8%	-160.7%	-73.4%	16.8%	-28.9%	67.5%
Net income (€m)	-17.10	-24.09	-14.85	2.97	-3.99	34.89
EPS (diluted) (€)	-0.04	-0.02	-0.04	0.01	-0.01	0.10
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-17.99	-10.88	-13.78	2.93	-7.25	18.73
Net gearing	-2178.6%	-320.1%	320.6%	215.0%	264.4%	54.6%
Liquid assets (€m)	3.78	5.27	19.84	22.77	23.43	47.06

RISKS

The main risks to our price target include delays in the commercialisation of Ruconest in the EU and the approval of Ruconest in the US.

COMPANY PROFILE

Pharming Group NV is a Dutch biopharmaceutical company which develops and produces therapeutic proteins in the milk of genetically modified rabbits. Pharming's lead drug candidate, Ruconest, received marketing approval in October 2010 for Europe, where it is already marketed, and is in Phase III trials in the US.

MARKET DATA

As of 18 Nov 2013

Closing Price	€ 0.15
Shares outstanding	332.43m
Market Capitalisation	€ 50.20m
52-week Range	€ 0.06 / 0.32
Avg. Volume (12 Months)	6,135,904

Multiples	2012	2013E	2014E
P/E	n.a.	15.1	n.a.
EV/Sales	4.2	5.6	2.3
EV/EBIT	n.a.	n.a.	13.9
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2013

Liquid Assets	€ 12.70m
Current Assets	€ 16.50m
Intangible Assets	€ 0.44m
Total Assets	€ 23.72m
Current Liabilities	€ 10.60m
Shareholders' Equity	€ -1.59m

SHAREHOLDERS

Deerfield Management Company L.P.	5.7%
Kingdon Capital Management LLC	4.5%
Broadfin Healthcare Master Fund	4.4%
Free Float	85.4%



However, Pharming increased its capital by EUR12m after the reporting period (9 October - see our comment dated 15 October). The firm's equity position thus turned positive again (for the first time since December 2011).

Buy rating reiterated at unchanged price target Even though Pharming's 9M development was in line with our expectations, we have lowered our OPEX assumptions for FY 2013 and subsequent years. Changes to our forecasts are shown in table 2 below. We maintain our assumptions regarding the company's progress in research & development as well as associated milestone payments (such as the expected USD20m milestone payment after first commercial sales are generated in the US). Upon publication of the 9M results Pharming announced that the FDA had informed the company that an Advisory Committee is not likely to be required as part of the Ruconest review. Pharming and its partner Santarus expect that the FDA will respond to the Ruconest BLA by 16 April 2014. Our pipeline valuation model yields an unchanged price target of EURO.70. We reiterate our Buy recommendation.

Table 1: Estimates versus reported figures

All figures in €m	9M-13A	9M-13E	Delta	9M-12A	Delta
Sales*	6.05	5.98	1.2%	2.40	152.4%
EBIT	-3.68	-4.63	-	-18.71	-
margin	neg.	neg.	-	neg.	-
Net income	-11.10	-11.68	-	-24.18	-
margin	neg.	neg.	-	neg.	-
EPS (diluted, in €)	-0.06	-0.07	-	-0.38	-

* Sales including other operating income like milestone payments

Source: First Berlin Equity Research, Pharming Group

Table 2: Changes to estimates

All figures in €m	2013E			2014E			2015E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales*	8.15	8.15	0.0%	19.69	19.69	0.0%	13.48	13.48	0.0%
EBIT	-7.10	-5.99	-	2.54	3.30	30.1%	-4.16	-3.90	-
margin	neg.	neg.	-	12.9%	16.8%	-	neg.	neg.	-
Net income	-15.70	-14.85	-	2.21	2.97	34.6%	-4.26	-3.99	-
margin	neg.	neg.	-	11.2%	15.1%	-	neg.	neg.	-
EPS (diluted, in €)	-0.04	-0.04	-	0.01	0.01	34.6%	-0.01	-0.01	-

* Sales including other operating income like milestone payments

Source: First Berlin Equity Research

**Table 3: Pipeline valuation model**

Compound	Project ¹⁾	Present Value	Patient Pop	Treatment Cost	Market Size	Market Share	Peak Sales	PACME Margin ²⁾	Discount Factor	Patent Life ³⁾	Time to Market
Ruconest (EU)	HAE-AA	€26.3M	10K	€14,400	€144M	35%	€56M	16%	5%	12	-
Ruconest (US)	HAE-AA	€136.0M	10K	€44,308	€443M	35%	€173M	25%	15%	12	1 Years
Ruconest (EU)	HAE-PR	€15.2M	3K	€78,998	€261M	35%	€103M	16%	5%	10	3 Years
Ruconest (US)	HAE-PR	€156.7M	3K	€270,000	€891M	35%	€355M	25%	15%	10	3 Years
rhC1INH	IRI*	€51.8M	-	-	-	-	-	-	-	-	> 5 Years
PACME PV		€386.0M			€1,739M		€687M				
Costs PV⁴⁾		€158.0M									
NPV		€228.1M									
Milestones PV		€13.2M									
Net Cash (pro-forma)		€25.1M									
Fair Value		€266.4M									
Share Count (fully diluted)		359,554K									
Price Target		€0.74									

1) A project typically refers to a specific indication or, where necessary or relevant, a combination between indication and geographic market

2) PACME (Profit After Costs and Marketing Expenses) reflects the company's profit share on future revenues.

This share may be derived in the form of royalties (outsourced marketing/manufacturing) or operating EBITDA margin (in-house model), or some mix of both (depending on the specific parameters of partnership agreements)

3) Remaining patent life after the point of approval

4) Includes company-level R&D, G&A, Financing Costs and CapEx; COGS and S&M are factored into the PACME margin for each project

*) Combined PV of R&D projects DGF and AMI due to lower priority of the two projects

Source: First Berlin Equity Research

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	10 November 2009	€0.52	Buy	€0.70
2...21	↓	↓	↓	↓
22	24 April 2013	€0.06	Buy	€0.80
23	9 September 2013	€0.13	Buy	€1.00
24	15 October 2013	€0.12	Buy	€0.70
25	Today	€0.15	Buy	€0.70

Jens Hasselmeier

First Berlin
Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 83

Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com

www.firstberlin.com

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BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

REDUCE: Expected negative return between 0% and -15%

SELL: Expected negative return greater than -15%

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