

Company Update

Ruconest sales up in second quarter

After a slow start to 2016, Pharming has reported +63% sales growth of Ruconest in 2Q16 (vs 1Q16), and ended 1H16 marginally ahead of 1H15. Sales in the US have been recovering since Valeant's sales force reorganisation in 4Q15 (up 33% QoQ), and Pharming's recent renegotiation of its distribution agreement with SOBI should allow it to grow sales in key markets such as the UK, Spain and France. Crucially, Pharming announced positive results from its Phase II trial using Ruconest prophylactically in July 2016, which may allow Pharming to access a large potential market. In light of this opportunity and the potential for continuing sales growth in the US and Europe, we are reiterating our Buy recommendation.

Pharming reported increased revenues from sales of Ruconest in 1H16 to €4.2m (versus €4.1m in 1H15, Stifel estimate €4.5m), with sales in the US of €3.5m (€3.0m in 1H15) and sales in EU and ROW of €0.7m (vs €1.1m in 1H15). Gross profit of €3.3m (vs Stifel estimate €3.1m, up 14% YoY) was marginally better than our expectations. Operating loss of €6.2m was marginally higher than our forecast €5.7m loss, due to slightly higher R&D spend in 1H16. We have marginally increased our R&D and SG&A spend for 2016 to better reflect Pharming's investment in growing Ruconest sales. Pharming had cash of €21.7m to 30 June 2016, (a cash burn of €10.1m in 1H16), primarily related to the increased R&D spend.

Sales of Ruconest up 63% in 2Q16 versus 1Q16. Despite the slow start to the year of Ruconest sales, Pharming reported improved trends in the second quarter, aided by modest expansion of its EU direct commercialisation efforts. With the SOBI distribution agreement renegotiated in July 2016, Pharming will directly market Ruconest in another 21 countries including the UK, France and Spain, as of October 2016. Valeant remains Pharming's partner in the US.

Positive Phase II data in prophylaxis key milestone. Pharming's Phase II data for the prophylactic use of Ruconest demonstrated a statistically significant reduction in HAE attack frequency for both the twice-weekly and once-weekly treatment regimens compared to placebo. The data is an important milestone for the company, particularly as there were concerns that Ruconest's short half life would leave the product unsuitable for prophylactic use. The prophylactic market is expected to be around \$800m in 2017 from sales of Shire's Cinryze; if approved, Ruconest would be the only product approved for acute and prophylactic use. We forecast sales of \$85m of Ruconest for prophylactic use in 2020, assuming launch in 2018.

Pipeline progression. Alongside the Phase II paediatric trial data for Ruconest, which is expected at the end of 2016, Pharming is progressing its pipeline programmes for Pompe disease and Fabry disease through pre-clinical testing, and expects to announce more details later in the year.

Reiterate Buy, €0.71 TP. We have marginally reduced sales forecasts of Ruconest for the year to €11.2m (from €12m) based on slower sales in Europe, although our expectations for subsequent years remain unchanged. We expect growing sales in the US (+33% in 2Q16 vs 1Q16) and Pharming's increased focus on European commercialisation to continue to boost sales.

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Price (27 July 2016)		€0.24
Changes	Previous	Current
Rating	-	BUY
Target Price	-	€0.71



Key data

Stock code	PHARM NA
Market cap (€m)	96
Amsterdam Stock Exchange	628
Amsterdam Midkap Index	
1mth perf (%)	26.2
3mths perf (%)	9.8
12mths perf (%)	(26.9)
12mth high-low (€)	0 - 0
Free float (%)	100

Key financials

Year to Dec	2015A	2016E	2017E
Sales (€)	10.8	13.4	18.9
EBIT adj	(13.01)	(10.36)	(8.11)
EBIT margin (%)	(120.5)	(77.3)	(42.8)
EPS adj (c)	(2.4)	(2.8)	(2.3)
EV/EBITDA (x)	--	--	--
PE adj (x)	NA	NA	NA
DPS (c)	0	0	0
Div yield (%)	0	0	0
FCF yield (%)	0	0	0

Prices are as of close 27 July 2016

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

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Key data¹

Key valuation ratios (x)				
	2015A	2016E	2017E	2018E
PE adj (x)	NA	NA	NA	NA
ROCE (% incl. gross goodwill)	(0.4)	(0.9)	(2.9)	2.4
Div yield (%)	0	0	0	0
Key profit and loss data (€)				
	2015A	2016E	2017E	2018E
Sales (€)	10.8	13.4	18.9	27.1
EBITDA adj	(13.0)	(10.4)	(8.1)	(4.2)
EBIT adj	(13.01)	(10.36)	(8.11)	(4.20)
EBIT adj margin (%)	(120.5)	(77.3)	(42.8)	(15.5)
Net income	(10.2)	(11.5)	(9.2)	(5.3)
EPS adj (c)	(2.4)	(2.8)	(2.3)	(1.3)
DPS (c)	0	0	0	0
Key cash flow data (€)				
	2015A	2016E	2017E	2018E
Operating profit	(13.0)	(10.4)	(8.1)	(4.2)
Depreciation	0	0	0	0
Other	0	0	0	0
Operating cash flow	(16.4)	(10.2)	(8.0)	(4.6)
Taxes paid	0	0	0	0
Net interest	0.1	0	0	0
Capex	(0.9)	0	0	0
Free cash flow	(17.2)	(10.2)	(8.0)	(4.6)
Dividends	0	0	0	0
Change in cash	(16)	(10)	(8)	(5)
Net debt	(16.8)	(6.6)	1.3	5.9
Key balance sheet (€)				
	2015A	2016E	2017E	2018E
Intangible assets	1	1	1	1
PPE	6	6	6	6
Cash	32	18	7	(1)

Key information

Target price methodology/risks

Target price is based on our risk-adjusted product-based NPV valuation.

Risks to the investment include Pharming's reliance on distribution partners to execute commercialisation strategy for Ruconest, along with the risk that market acceptance is lower than expected or unforeseen safety and efficacy issues affect the global growth. Competition may also increase from 2018 onwards, 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.

Senior management

Chairman - Jaap Blaak

Chief Executive Officer - Sijmen de Vries

Chief Operating Officer - Bruno Giannetti

Chief Financial Officer - Robin Wright

Key dates

Mid-2016 - Phase II results of Ruconest in prophylaxis HAE

Mid-2016 - Update on pipeline programmes

July/August 2016 - 2Q16 results

Major shareholders

Kingdon Capital Management - 2.1%

Website

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

¹ Year end December

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

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