

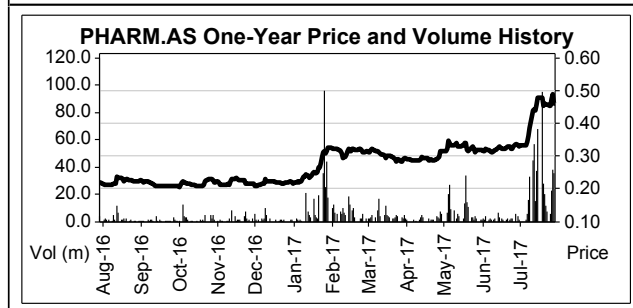
## Healthcare: BioPharmaceuticals

# Pharming Group NV (OTC: PHGUF) | PHARM.AS - €0.46 - AEX |

## Buy

### Company Update

Stock Data					
52-Week Low - High	€0.20 - €0.51				
Shares Out. (mil)	502.82				
Mkt. Cap.(mil)	€231.8				
3-Mo. Avg. Vol.	11,664,560				
12-Mo.Price Target	€1.30				
Cash (mil)	€25.0				
Tot. Debt (mil)	€89.7				
Current Yield	NA				
Pricing information reflects data from the securities primary listing, in this case the Amsterdam Exchange.					
EPS €					
Yr Dec	—2016—	—2017E—		—2018E—	
		Curr	Prev	Curr	Prev
1Q	(0.01)A	(0.01)A	(0.01)A	-	-
2Q	(0.01)A	(0.05)A	(0.03)E	-	-
3Q	(0.01)A	0.00E	0.00E	-	-
4Q	(0.02)A	0.00E	0.00E	-	-
YEAR	(0.04)A	(0.07)E	(0.03)E	0.03E	0.05E
Revenue (€ millions)					
Yr Dec	—2016—	—2017E—		—2018E—	
		Curr	Prev	Curr	Prev
1Q	2.2A	15.5A	15.5A	-	-
2Q	3.1A	15.2A	15.5E	-	-
3Q	3.4A	16.7E	16.7E	-	-
4Q	7.2A	17.7E	17.7E	-	-
YEAR	15.9A	65.0E	65.4E	92.8E	-



## PHARM: 2Q17 Recap - Setting Up for 2H17 Ruconest Growth

Pharming reported in-line revenues for 2Q17. The EPS loss was greater due to higher spending and 1X noise below the line. The key takeaways, in our opinion, include 1) Ruconest is expected to grow in 2H17 (strong June monthly data), 2) model adjusted for higher selling costs, and 3) the Lancet publication could contribute to off label prophylaxis prescribing for Ruconest. We reiterate our Buy rating with a price target of €1.30.

- 2Q17 Recap.** Pharming reported revenues of €15.2M versus our target of €15.5M. Ruconest volume was largely on track, with the slight downside due to currency differences (Ruconest: €14.9M actual versus our target of €15.3M). Gross margins were slightly lower than expected and selling expenses were ~€3M higher. Net, operating income was ~€400K versus our target of ~€3M. A lot of noise below the line as well. Net, the company posted an EPS loss of €0.051 versus our targeted loss of €0.028. We'd focus on the Ruconest #'s, which were largely in-line.
- Takeaway #1 - Ruconest setting up for 2H17 growth.** Encouragingly, slide 12 of the company presentation indicates monthly growth for Ruconest (treatment for hereditary angioedema or "HAE") in June to a new high of ~€5.3M (run rate of ~€64M). This, combined with statements of "increasing sales," leaves us comfortable that our revenue target for 2017 ~€65M remains achievable (if not beatable). Our expectation was that Q2 sales would confirm the elevated levels of Q1 and that goal was achieved, in our opinion.
- Takeaway #2 - Model changes.** The model is noisy given the recent restructurings. Key incremental changes in our model include 1) slightly lower gross margins (likely just variance), 2) higher selling costs (upped by ~€7.5M/year), and 3) higher interest costs (upped by ~€1M/quarter, non-cash). These adjustments modestly reduced our EPS forecasts. However, this is offset somewhat, in our opinion, by increased confidence in the Ruconest revenue ramp.
- Takeaway #3 - Lancet article.** The company's HAE prophylaxis data for Ruconest was recently published in the prestigious Lancet journal. The data was as expected. However, this journal article can now be left with physicians and could increase the potential for off label prescribing. We view this as a material positive.
- Reiterate Buy rating.** We continue to view Pharming as an emerging pharmaceutical company that is crossing the threshold into profitability. We further view the company as significantly undervalued and we reiterate our Buy rating.

Intraday price \$0.55 as of 10:30 pm

## VALUATION

---

We value Pharming at €1.30/share. We arrive at this valuation based on applying a ~21X multiple to our forecasted 2020 EPS of €0.12 – and discounting this target by 25%/year for three years. We believe that 21X is a reasonable multiple given a challenging generic pathway and continued growth prospects beyond 2020 (offset somewhat by potential warrant dilution). The largest risk to our forecasts, in our opinion, is the revenue projections for Ruconest.

Impediments to shares not reaching our price target include, but are not limited to, failure of product revenues to match our forecasts.

## RISKS

---

In addition to the risks inherent in developing, manufacturing, and selling pharmaceuticals, key investment risks for Pharming Group include:

- **Clinical trial risk** – Pharming is developing Ruconest for the prophylaxis of HAE. Failure of this clinical data to match expectations could have a material adverse impact on company shares. This includes regulatory correspondence with the FDA.
- **Marketing risk** - Pharming is marketing a product for the first time with Ruconest. Failure of marketing efforts to be successful in-line with expectations could have a material adverse impact on company shares.
- **Forecasting risk** – We forecast substantial revenues for Pharming's Ruconest. Failure of actual revenues to match our forecasts could have a material adverse impact on company shares.
- **Financial risk** – Pharming has considerable debt. Failure to be able to repay or re-finance this debt through normal operations could have a material adverse impact on company shares.

## COMPANY DESCRIPTION

---

Pharming focuses on developing pharmaceutical grade recombinant proteins for therapeutic use, based on its transgenic animal platform. The company produces high yield human-like recombinant proteins from the milk of transgenic rabbits, using its scalable platform. Pharming's lead product is Ruconest, recombinant human C1 esterase inhibitor (rhC1INH), which was approved by the EMA in 2010 for the treatment of an orphan disease, hereditary angioedema (HAE) and approved in the U.S. in July 2014. The drug is commercialized in the E.U. under the name Ruconest in collaboration with Swedish Orphan Biovitrum (SOBI). Pharming re-purchased U.S. rights back from Valeant in 2016 in exchange for \$60M upfront and \$65M in sales milestone. The company is based in The Netherlands.

Pharming Group N.V.																
Quarterly earnings model																
Values in €000's																
	FY 2015 A	1Q16A	2Q16A	3Q16A	4Q16A	FY 2016 A	1Q17A	2Q17A	3Q17E	4Q17E	FY 2017 E	FY 2018 E	FY 2019 E	FY 2020 E	FY 2021 E	FY 2022 E
<b>Revenues:</b>																
Proforma revenues		5,800	6,600	8,100	9,500	30,000										
WW product sales	8,621	1,662	2,508	2,864	6,655	13,689	15,192	14,917	16,455	17,547	64,111	92,689	132,937	189,338	270,720	359,909
Amortised license fee income	2,207	552	552	552	528	2,184	268	268	200	200	936	150	50	50	50	50
<b>Net revenues</b>	<b>10,828</b>	<b>2,214</b>	<b>3,060</b>	<b>3,416</b>	<b>7,183</b>	<b>15,873</b>	<b>15,460</b>	<b>15,185</b>	<b>16,655</b>	<b>17,747</b>	<b>65,047</b>	<b>92,839</b>	<b>132,987</b>	<b>189,388</b>	<b>270,770</b>	<b>359,959</b>
Cost of product sales	4,800	657	1,138	1,227	1,452	4,474	1,705	2,040	1,892	1,930	7,567	9,732	13,693	19,123	26,801	35,631
% of product sales	55.7%	39.5%	45.4%	42.8%	21.8%	32.7%	11.2%	13.7%	11.5%	11.0%	11.8%	10.5%	10.3%	10.1%	9.9%	9.9%
Inventory impairments	-	-	209	-	-	209	(8)	(80)	-	-	(88)	-	-	-	-	-
<b>Gross profit</b>	<b>6,028</b>	<b>1,557</b>	<b>1,713</b>	<b>2,189</b>	<b>5,731</b>	<b>11,190</b>	<b>13,763</b>	<b>13,225</b>	<b>14,763</b>	<b>15,817</b>	<b>57,568</b>	<b>83,107</b>	<b>119,294</b>	<b>170,265</b>	<b>243,969</b>	<b>324,328</b>
Other income	147	126	69	70	70	335	84	83	75	75	317	300	300	300	300	300
Research and development	14,180	3,695	3,334	4,051	4,308	15,388	4,689	4,465	4,500	4,500	18,154	18,000	20,000	22,500	25,000	27,000
General and administrative	3,744	941	1,108	1,071	1,522	4,642	1,375	1,253	1,400	1,400	5,428	6,500	7,000	7,500	8,000	8,500
Marketing and sales	1,085	217	381	313	2,124	3,035	3,911	7,229	6,750	6,750	24,640	25,500	26,000	27,000	28,000	29,000
<b>Costs</b>	<b>19,009</b>	<b>4,853</b>	<b>4,823</b>	<b>5,435</b>	<b>7,954</b>	<b>23,065</b>	<b>9,975</b>	<b>12,947</b>	<b>12,650</b>	<b>12,650</b>	<b>48,222</b>	<b>50,000</b>	<b>53,000</b>	<b>57,000</b>	<b>61,000</b>	<b>64,500</b>
<b>Operating results</b>	<b>(12,834)</b>	<b>(3,170)</b>	<b>(3,041)</b>	<b>(3,176)</b>	<b>(2,153)</b>	<b>(11,540)</b>	<b>3,872</b>	<b>361</b>	<b>2,188</b>	<b>3,242</b>	<b>9,663</b>	<b>33,407</b>	<b>66,594</b>	<b>113,565</b>	<b>183,269</b>	<b>260,128</b>
FV derivative adjustment	3,380	367	88	(44)	(332)	79	(2,426)	1,201	-	-	(1,225)	-	-	-	-	-
Other financial income and (expenses)	(503)	(582)	(396)	(485)	(4,612)	(6,075)	(7,194)	(26,032)	(3,500)	(3,500)	(40,226)	(14,000)	(14,000)	(14,000)	(14,000)	(14,000)
Pretax income	(9,957)	(3,385)	(3,349)	(3,705)	(7,097)	(17,536)	(5,748)	(24,470)	(1,312)	(258)	(31,788)	19,407	52,594	99,565	169,269	246,128
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	97	263	19,913	51,627	75,069
tax rate									0.0%	0.0%	0.0%	0.5%	0.5%	20.0%	30.5%	30.5%
<b>Net income</b>	<b>(9,957)</b>	<b>(3,385)</b>	<b>(3,349)</b>	<b>(3,705)</b>	<b>(7,097)</b>	<b>(17,536)</b>	<b>(5,748)</b>	<b>(24,470)</b>	<b>(1,312)</b>	<b>(258)</b>	<b>(31,788)</b>	<b>19,310</b>	<b>52,332</b>	<b>79,652</b>	<b>117,642</b>	<b>171,059</b>
<b>EPS</b>	<b>(0.024)</b>	<b>(0.008)</b>	<b>(0.008)</b>	<b>(0.009)</b>	<b>(0.016)</b>	<b>(0.041)</b>	<b>(0.012)</b>	<b>(0.051)</b>	<b>(0.003)</b>	<b>(0.001)</b>	<b>(0.066)</b>	<b>0.030</b>	<b>0.080</b>	<b>0.120</b>	<b>0.175</b>	<b>0.250</b>
Shares outstanding (fully diluted)	411,972	412,505	412,555	412,605	455,587	423,313	484,583	483,929	484,429	484,929	484,467	643,000	653,000	663,000	673,000	685,400

Source: ROTH Capital Partners and SEC filings  
 Scott R Henry, CFA  
[shenry@roth.com](mailto:shenry@roth.com)  
 (949) 500-0863

Pharming Group N.V. Ruconest U.S. model										
Quarter	Acute Market	sequential mkt growth rate	Ruconest Share	Ruconest Acute revenues	Prophylaxis Market	Market growth rate	Ruconest Share	Ruconest Prophylaxis revenues	Combined Ruconest revenues	Annual sales
1Q16	€ 200,000		2.76%	€ 5,510	€ 150,000		0.00%	-	€ 5,510	
2Q16	€ 205,000		3.06%	€ 6,270	€ 150,000		0.00%	-	€ 6,270	
3Q16	€ 215,000		3.58%	€ 7,695	€ 150,000		0.00%	-	€ 7,695	
4Q16	€ 217,500		4.15%	€ 9,025	€ 150,000		0.00%	-	€ 9,025	€ 28,500
1Q17	€ 220,000	5%	6.59%	€ 14,492	€ 157,500	5%	0.00%	-	€ 14,492	
2Q17	€ 231,000	5%	6.07%	€ 14,017	€ 165,375	5%	0.00%	-	€ 14,017	
3Q17	€ 242,550	5%	6.40%	€ 15,523	€ 173,644	5%	0.00%	-	€ 15,523	
4Q17	€ 254,678	5%	6.50%	€ 16,554	€ 182,326	5%	0.00%	-	€ 16,554	€ 60,587
1Q18	€ 264,865	4%	7.00%	€ 18,541	€ 189,619	4%	0.00%	-	€ 18,541	
2Q18	€ 275,459	4%	7.50%	€ 20,659	€ 197,204	4%	0.00%	-	€ 20,659	
3Q18	€ 286,478	4%	8.00%	€ 22,918	€ 205,092	4%	0.00%	-	€ 22,918	
4Q18	€ 297,937	4%	8.50%	€ 25,325	€ 213,296	4%	0.00%	-	€ 25,325	€ 87,443
1Q19	€ 306,875	3%	9.00%	€ 27,619	€ 219,694	3%	0.00%	-	€ 27,619	
2Q19	€ 316,081	3%	9.50%	€ 30,028	€ 226,285	3%	0.00%	-	€ 30,028	
3Q19	€ 325,563	3%	10.00%	€ 32,556	€ 233,074	3%	0.00%	-	€ 32,556	
4Q19	€ 335,330	3%	10.50%	€ 35,210	€ 240,066	3%	0.00%	-	€ 35,210	€ 125,412
1Q20	€ 345,390	3%	11.00%	€ 37,993	€ 247,268	3%	0.25%	€ 618	€ 38,611	
2Q20	€ 355,752	3%	11.50%	€ 40,911	€ 254,686	3%	0.50%	€ 1,273	€ 42,185	
3Q20	€ 366,425	3%	12.00%	€ 43,971	€ 262,327	3%	1.00%	€ 2,623	€ 46,594	
4Q20	€ 377,417	3%	12.50%	€ 47,177	€ 270,196	3%	1.50%	€ 4,053	€ 51,230	€ 178,620
1Q21	€ 388,740	3%	13.00%	€ 50,536	€ 278,302	3%	2.00%	€ 5,566	€ 56,102	
2Q21	€ 400,402	3%	13.50%	€ 54,054	€ 286,651	3%	2.50%	€ 7,166	€ 61,221	
3Q21	€ 412,414	3%	14.00%	€ 57,738	€ 295,251	3%	3.00%	€ 8,858	€ 66,595	
4Q21	€ 424,786	3%	14.50%	€ 61,594	€ 304,108	3%	3.25%	€ 9,884	€ 71,478	€ 255,396
1Q22	€ 437,530	3%	15.00%	€ 65,630	€ 313,232	3%	3.50%	€ 10,963	€ 76,593	
2Q22	€ 450,656	3%	15.50%	€ 69,852	€ 322,629	3%	3.75%	€ 12,099	€ 81,950	
3Q22	€ 464,176	3%	16.00%	€ 74,268	€ 332,308	3%	4.00%	€ 13,292	€ 87,560	
4Q22	€ 478,101	3%	16.50%	€ 78,887	€ 342,277	3%	4.25%	€ 14,547	€ 93,433	€ 339,537

Source: ROTH Capital Partners estimates

**Pharming Group N.V.  
Pipeline analysis**

	2016A				2017E				2018E				2019E				2020E			
	1QA	2QA	3QA	4QA	1QA	2QA	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE
<b>Ruconest - Prophylaxis of HAE</b>																				
Phase 2			DATA		1X/week and 2X/week															
FDA meeting								May be able to file on P2												
Pivotal																				
File					Self-administration in Europe															LAUNCH
Fast IV		30 seconds versus 5 minutes																		
Sub-Q/Intramuscular					Likely bioequivalence								Could file by end of 2018/1H19							
Oral version																				
<b>Pompe disease</b>																				
Phase 1																				
<b>Fabry disease</b>																				
Phase 1																				
<b>Undisclosed antibody</b>																				
Phase 1																				

Source: Company reports and ROTH Capital Partners estimates

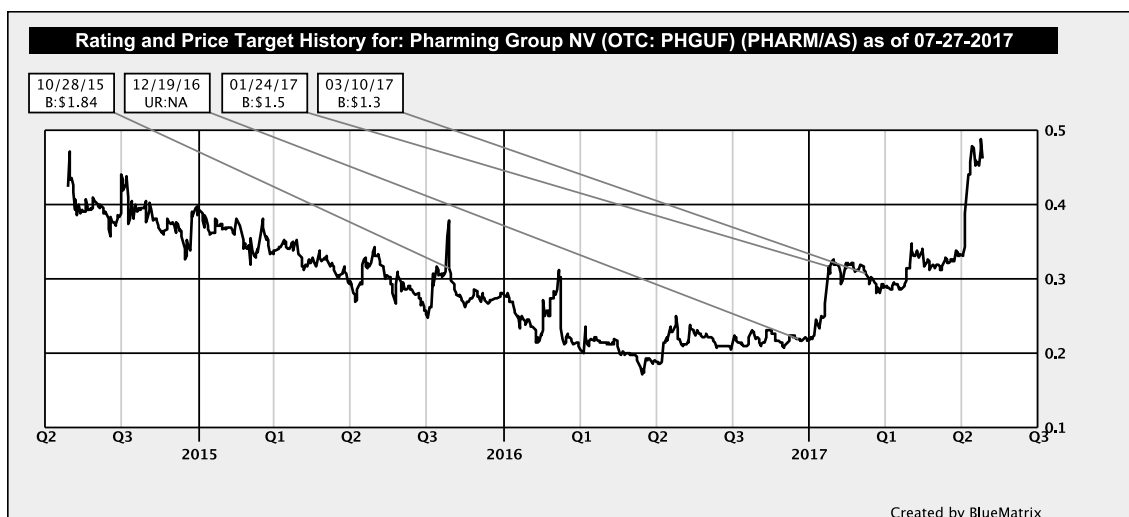
Regulation Analyst Certification ("Reg AC"): The research analyst primarily responsible for the content of this report certifies the following under Reg AC: I hereby certify that all views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

## Disclosures:

Within the last twelve months, ROTH has received compensation for investment banking services from Pharming Group NV (OTC: PHGUF).

Shares of Pharming Group NV (OTC: PHGUF) may not be eligible for sale in one or more states.

Shares of Pharming Group NV (OTC: PHGUF) may be subject to the Securities and Exchange Commission's Penny Stock Rules, which may set forth sales practice requirements for certain low-priced securities.



Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

### Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 07/28/17	
			Count	Percent
Buy [B]	214	70.86	110	51.40
Neutral [N]	44	14.57	22	50.00
Sell [S]	6	1.99	3	50.00
Under Review [UR]	36	11.92	22	61.11

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

Ratings System Definitions - ROTH employs a rating system based on the following:

**Buy:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return of at least 10% over the next 12 months.

**Neutral:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

**Sell:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

**Under Review [UR]:** A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

**Not Covered [NC]:** ROTH does not publish research or have an opinion about this security.

ROTH Capital Partners, LLC expects to receive or intends to seek compensation for investment banking or other business relationships with the covered companies mentioned in this report in the next three months. The material, information and facts discussed in this report other than the information regarding ROTH Capital Partners, LLC and its affiliates, are from sources believed to be reliable, but are in no way guaranteed to be complete or accurate. This report should not be used as a complete analysis of the company, industry or security discussed in the report. Additional information is available upon request. This is not, however, an offer or solicitation of the securities discussed. Any opinions or estimates in this report are subject to change without notice. An investment in the stock may involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Additionally, an investment in the stock may involve a high degree of risk and may not be suitable for all investors. No part of this report may be reproduced in any form without the express written permission of ROTH. Copyright 2017. Member: FINRA/SIPC.