



Research Note

# Pharming Group

2018Q1: Strong and Profitable



Chief Research Analyst

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<b>Name:</b>	<b>Pharming Group</b>
<b>Country:</b>	<b>The Netherlands</b>
<b>Price:</b>	<b>EUR 1.38</b>
<b>ISIN Code:</b>	<b>NL0010391025</b>
<b>Reuters Code:</b>	<b>PHARM.AS</b>
<b>Market Cap (EUR m):</b>	<b>828.6</b>
<b>EV (EUR m):</b>	<b>819.8</b>
<b>Cash &amp; cash eq. (EUR m):</b>	<b>58.5</b>
<b>Shares outstanding (m):</b>	<b>600.4</b>
<b>Volume:</b>	<b>14.9 million</b>
<b>Free float:</b>	<b>98%</b>
<b>52-week Range:</b>	<b>0.31-1.62</b>

(EUR million)	2016A	2017A	2018E
<b>Total Revenues</b>	15.9	89.6	128.0
<b>Net (Loss)/Profit</b>	(17.5)	(80.0)	49.3
<b>Net loss per share (cents)</b>	(4.2)	(16.0)	8.1
<b>R&amp;D costs</b>	15.4	18.7	19.0
<b>Cash increase/(decrease)</b>	(0.2)	28.9	20.0
<b>Cash and marketable sec.</b>	32.1	60.0	65.0



### *2018Q1 Figures: Ongoing Strong Increase Operational Results, Net Profit reached*

Pharming Group published its 2018Q1 figures which were in line with our expectations. Total revenues grew to EUR 29.5 million (2017Q1: EUR 15.5 million), an increase of 90%. Revenue from product sales increased 93% to EUR 29.3 million. Operating result more than doubled to EUR 8.2 million compared to an operating profit of EUR 3.9 million in 2017Q1. For the first time, the company reached profitability with net profit of EUR 3.3 million. In the same period last year, Pharming still had a net loss of EUR 5.7 million. We think it is positive that the company managed to sustain and even slightly improve sales of RUCONEST® compared to the already strong fourth quarter of 2017. Last quarter, the company profited from the irregular supply of the blood plasma derived products (Cinryze at Shire and Berinert at CSL Behring). We are not sure if the problems with the supply of the blood plasma derived products are solved. This quarter Shire increased sales of its products in HAE with only 1%. In 2017Q1 Shire still increased sales of its main HAE product Cinryze with 38%. Besides, we also think that patients that previously used the blood plasma derived products and switched to RUCONEST® in 2017Q4, continued with RUCONEST®.

The Company's cash position remained more or less the same at EUR 59.8 million (End of 2017: EUR 60.0 million, with EUR 27.6 million at the end of 2017Q1). This was largely due to the increased inventory and additional preparation costs associated with investment in new product development. For the coming period we expect rising R&D costs if the company decides to step up the development of its pipeline.

### *Outlook for 2018: Continued Growth in Revenues and Net Results*

The company expects continued growth in revenues, mainly driven by the US sales of RUCONEST®. Pharming also believes it will achieve positive net results throughout the course of the year. As mentioned, we think that the company will also increase its sales of RUCONEST® from HAE patients that previously used blood plasma derived products.



Earlier this year, we already increased our sales forecast for 2018 to EUR 128 million and a net profit of EUR 46 million. We do not change our estimates at this moment. Also for the coming years we keep our outlook for both revenues and profit. Pharming is therefore the first Dutch biotechnology company ever to reach sustainable profit growth derived from the company's proprietary platform.

### *Profit & Loss Statement*

EUR million	2016A	2017A	2018E	2019E
Total Revenues	15.9	89.6	128.1	163.1
Cost of Sales	4.7	12.4	17.7	21.1
<b>Gross Profit</b>	<b>11.2</b>	<b>77.2</b>	<b>110.4</b>	<b>142.0</b>
R&D Costs	15.4	18.7	20.0	20.0
G&A Costs	4.6	6.0	7.0	9.0
Marketing & Sales	3.0	31.4	29.1	30.0
<b>Operating Profit</b>	<b>(11.5)</b>	<b>21.9</b>	<b>54.3</b>	<b>83.0</b>
Financial Income/(Expenses)	(6.0)	(111.3)	(14.0)	(15.0)
<b>Net Profit/(Loss)</b>	<b>(17.5)</b>	<b>(80.0)</b>	<b>42.3</b>	<b>68.0</b>

Source: Van Leeuwenhoek

### *Valuation Revised Upwards: From EUR 1.88 per share to EUR 2.40*

Based on our NPV based valuation, we believe that Pharming is still substantially undervalued at the current share price of EUR 1.38. We have increased our valuation for the company and estimate that the company's current total value should increase from EUR 1.1 billion to EUR 1,6 million, which translates, based on an expected number of issued shares of approximately 657 million, into EUR 2.40 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	126,6	162,1	210,5	263,4	313,3	355,5	400,0	438,7	467,0	491,4
Margin up to 60%	-80,0	40,3	68,0	106,6	155,1	192,1	214,2	234,4	250,8	259,7	267,3
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)	-80,0	40,3	44,5	91,4	107,2	122,8	145,8	147,7	146,3	140,3	133,7
Total NPV (million)											1,641.3
Value per share (EUR)											2.39



*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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