

## Solid start to Ruconest in US

*Pharming's 2015 results demonstrated a good first year performance for Ruconest in the US. We estimate US sales of Ruconest were c.\$24m following launch there in late 2014. With significant investment in R&D, Pharming's net loss for the year was €10m (Stifel est. €9.6m), as the company invested in further indications and a subcutaneous formulation for Ruconest, as well as its pipeline. We continue to believe Ruconest's positioning as a safe and effective alternative to Shire's market-leading products should allow it to gain share in the growing HAE market. In our view, Pharming remains undervalued in light of this potential. Buy.*

**Ruconest remains key.** Revenues from Ruconest sales grew to €8.6m (vs €3.0m in 2014), aided by the first full year sales in the US, but marginally below our expectations. EBIT (excluding milestones) improved to a loss of €12.8m vs €13.1m, net loss of €10m was in line with our expectations, and cash was marginally better than expected at €31.8m (vs €34.4m at the end of 2014). We have reduced our near-term Ruconest sales to account for the slower uptake in the US, but continue to forecast \$335m sales at peak, given the potential for it to be approved for prophylactic use, and the development of a subcutaneous version. To date, Ruconest has demonstrated successful results in patients where other treatments have not worked.

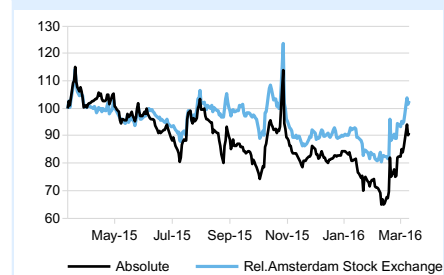
**Full year of Ruconest sales in the US, expanding elsewhere.** Ruconest sales continued to grow well in 2015, with Pharming receiving income of €6.3m in the US (up from €0.3m in 2014), and sales in Europe and RoW of €2.3m, representing an underlying increase of 9% in market sales. Growth in the US was slower than expected (having also been hampered by Valeant's acquisition of Salix), although prescriptions have continued to grow. In Europe the requirement to test for rabbit allergies prior to first use has been removed, and the label has been extended to include adolescent patients. Pharming has also extended its agreement with Cytobiotech in Latin America, having achieved the first sales in Colombia and Venezuela, and Ruconest has been approved in South Korea.

**Topline data from prophylaxis trial results due 2Q16.** Pharming has completed recruitment of the Phase II clinical trial in prophylaxis of HAE, with topline data expected in mid-2016. Approval of Ruconest in the prophylaxis of HAE will allow Ruconest to be used across the entire spectrum of HAE patients and should provide a boost to sales. Pharming then intends to outline a development pathway for US prophylaxis approval, likely to involve a Phase III trial, where it will also look to test the subcutaneous version of Ruconest alongside.

**Solid base built to support growing momentum.** We believe Ruconest sales growth is likely to continue in further territories, and the Phase II trial results in prophylaxis (expected 2Q16) provides a near-term inflection point. Pharming also expects to announce an update on its pipeline development in 2Q16. We believe the company is well placed to continue growing revenues, and that Ruconest's offering as a safe, efficacious alternative to Shire's market-leading products should allow it to continue gradually increasing market share.

Price (10 March 2016)	€0.25
<b>Changes</b>	<b>Previous</b> <b>Current</b>
Rating	-                      BUY
Target Price	-                      €0.88

### Share price performance (indexed)



### Key data

Stock code	PHARM NA
Market cap (€m)	100
Amsterdam Stock Exchange	663
Amsterdam Midkap Index	
1mth perf (%)	40.6
3mths perf (%)	10.9
12mths perf (%)	(8.4)
12mth high-low (€)	0 - 0
Free float (%)	100

### Key financials

Year to Dec	2015A	2016E	2017E
Sales (€)	10.8	18.4	32.7
EBIT adj	(13.0)	(6.7)	2.0
EBIT margin (%)	(120.5)	(36.5)	6.2
EPS adj (EUc)	(2.4)	(1.9)	0.2
EV/EBITDA (x)	--	--	--
PE adj (x)	NA	NA	106.3
DPS (c)	0	0	0
Div yield (%)	0	0	0
FCF yield (%)	0	0	0

Prices are intraday 10 March 2016

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

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## Key data<sup>1</sup>

Key valuation ratios (x)				
	2015A	2016E	2017E	2018E
PE adj (x)	NA	NA	106.3	8.2
ROCE (% incl. gross goodwill)	(0.4)	(0.5)	0.1	0.4
Div yield (%)	0	0	0	0
Key profit and loss data (€)				
	2015A	2016E	2017E	2018E
Sales (€)	10.8	18.4	32.7	51.0
EBITDA adj	(13)	(7)	2	13
EBIT adj	(13.0)	(6.7)	2.0	13.4
EBIT adj margin (%)	(120.5)	(36.5)	6.2	26.3
Net income	(10.2)	(7.8)	0.9	12.3
EPS adj (EUc)	(2.4)	(1.9)	0.2	3.0
DPS (c)	0	0	0	0
Key cash flow data (€)				
	2015A	2016E	2017E	2018E
Operating profit	(13.0)	(6.7)	2.0	13.4
Depreciation	0	0	0	0
Other	0	0	0	0
Operating cash flow	(16.4)	(6.9)	2.3	13.0
Taxes paid	0	0	0	0
Net interest	0.1	0	0	0
Capex	(0.9)	0	0	0
Free cash flow	(17.2)	(6.9)	2.3	13.0
Dividends	0	0	0	0
Change in cash	(16)	(7)	2	13
Net debt	(16.8)	(9.9)	(12.3)	(25.3)
Key balance sheet (€)				
	2015A	2016E	2017E	2018E
Intangible assets	1	1	1	1
PPE	6	6	6	6
Cash	32	21	20	30

## 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

April/May 2016 - 1Q16 results

2Q16 - Phase II results of Ruconest in prophylaxis

mid-2016 - Update on pipeline

July 2016 - 2Q16 results

### Major shareholders

Kingdon Capital Management - 2.1%

### Website

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

<sup>1</sup> Year end December  
Data in millions, except per share and percentages  
Source: Company data, FactSet, Stifel estimates

## Forecasts

Figure 1: Income statement 2015A-2020E (€m)

Year to 31 December	2015A	2016E	2017E	2018E	2019E	2020E
License fees	2.2	2.2	2.2	2.2	2.2	2.2
Milestones	0.0	0.0	0.0	0.0	0.0	0.0
Product sales and royalties	8.6	16.2	30.5	48.8	85.4	117.5
<b>Total sales</b>	<b>10.8</b>	<b>18.4</b>	<b>32.7</b>	<b>51.0</b>	<b>87.6</b>	<b>119.7</b>
% ch	-49%	71%	78%	56%	72%	37%
<b>COGS %</b>	<b>44.5%</b>	<b>32.0%</b>	<b>29.0%</b>	<b>28.0%</b>	<b>27.0%</b>	<b>26.0%</b>
COGS	(4.8)	(5.9)	(9.5)	(14.3)	(23.6)	(31.1)
<b>Gross profit</b>	<b>6.0</b>	<b>12.5</b>	<b>23.3</b>	<b>36.7</b>	<b>63.9</b>	<b>88.6</b>
SG&A	(4.8)	(5.3)	(5.8)	(6.4)	(7.0)	(7.7)
R&D	(14.2)	(14.0)	(15.4)	(16.9)	(18.6)	(20.5)
Other	0.2	0.0	0.0	0.0	0.0	0.0
<b>Operating profit</b>	<b>(12.8)</b>	<b>(6.7)</b>	<b>2.0</b>	<b>13.4</b>	<b>38.3</b>	<b>60.4</b>
<b>Operating margins</b>	<b>-118.7%</b>	<b>-36.5%</b>	<b>6.2%</b>	<b>26.3%</b>	<b>43.7%</b>	<b>50.4%</b>
Net interest	2.8	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Exceptionals						
<b>PBT</b>	<b>(10.0)</b>	<b>(7.8)</b>	<b>0.9</b>	<b>12.3</b>	<b>37.2</b>	<b>59.3</b>
<b>Tax rate</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Taxation	0	0	0	0	0	0
<b>Profit after tax</b>	<b>(10.0)</b>	<b>(7.8)</b>	<b>0.9</b>	<b>12.3</b>	<b>37.2</b>	<b>59.3</b>
<b>Ratios</b>						
Adjusted Pretax profit	(10.0)	(7.8)	0.9	12.3	37.2	59.3
GP	55.5%	68.0%	71.0%	72.0%	73.0%	74.0%
SG&A	44.5%	28.6%	17.7%	12.5%	8.0%	6.5%
R&D	131.6%	75.9%	47.0%	33.2%	21.3%	17.1%
Operating Profit	-118.7%	-36.5%	6.2%	26.3%	43.7%	50.4%
Shares	408	408	408	408	408	408
eps (cents)	-2.4	-1.9	0.2	3.0	9.1	14.5
adj. eps (pre-amortisation)	-2.4	-1.9	0.2	3.0	9.1	14.5
dps (cents)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Stifel estimates

**Figure 2: Balance sheet 2015A-2020E (€m)**

Year to 31 December	2015A	2016E	2017E	2018E	2019E	2020E
Intangible assets	0.7	0.7	0.7	0.7	0.7	0.7
Tangible assets	5.7	5.7	5.7	5.7	5.7	5.7
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	0.0
Restricted cash	0.2	0.2	0.2	0.2	0.2	0.2
<b>Fixed Assets</b>	<b>6.6</b>	<b>6.6</b>	<b>6.6</b>	<b>6.6</b>	<b>6.6</b>	<b>6.6</b>
Inventories	16.2	15.4	16.9	18.6	20.5	22.5
Debtors	3.2	3.5	4.7	7.1	11.8	15.6
Cash	31.6	21.4	20.5	30.2	65.0	124.6
<b>Current Assets</b>	<b>51.0</b>	<b>40.4</b>	<b>42.2</b>	<b>56.0</b>	<b>97.3</b>	<b>162.7</b>
Creditors-< 1 year	(13.5)	(12.6)	(15.4)	(18.8)	(24.7)	(29.7)
<i>of which borrowings</i>	<i>(3.0)</i>	<i>(2.7)</i>	<i>(2.4)</i>	<i>(2.2)</i>	<i>(2.0)</i>	<i>(1.8)</i>
Creditors- >1 year	(20.3)	(18.4)	(16.4)	(14.0)	(11.0)	(11.0)
<i>of which borrowings</i>	<i>(11.8)</i>	<i>(8.8)</i>	<i>(5.8)</i>	<i>(2.8)</i>	<i>0.0</i>	<i>0.0</i>
Provisions	0.0	0.0	(0.1)	(0.6)	(1.9)	(3.0)
<b>Net Assets</b>	<b>23.8</b>	<b>16.0</b>	<b>16.9</b>	<b>29.2</b>	<b>66.4</b>	<b>125.6</b>
<b>Capital and reserves</b>						
Share capital	4.1	4.1	4.1	4.1	4.1	4.1
Share premium	283.4	283.4	283.4	283.4	283.4	283.4
Other reserves	0.0	0.0	0.0	0.0	0.0	0.0
Profit & loss account	(263.7)	(271.5)	(270.6)	(258.3)	(221.1)	(161.9)
<b>Shareholder's funds</b>	<b>23.8</b>	<b>16.0</b>	<b>16.9</b>	<b>29.2</b>	<b>66.4</b>	<b>125.6</b>

Source: Stifel estimates

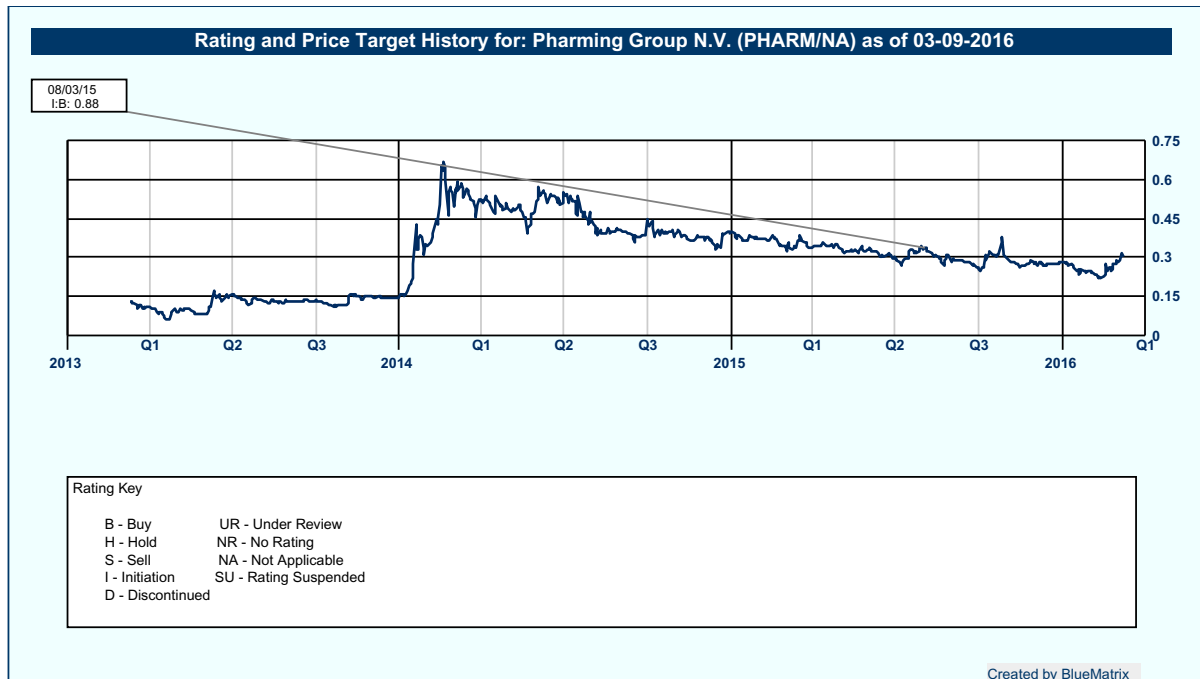
**Figure 3: Cash flow 2015A-2020E (€m)**

Year to 31 December	2015A	2016E	2017E	2018E	2019E	2020E
Operating Income	(12.8)	(6.7)	2.0	13.4	38.3	60.4
add: depreciation	0.0	0.0	0.0	0.0	0.0	0.0
add: amortisation	0.0	0.0	0.0	0.0	0.0	0.0
Provisions for liabilities & charges	0.0	0.0	0.0	0.0	0.0	0.0
less: increase in w.capital	(3.6)	(0.1)	0.3	(0.4)	(0.5)	(0.6)
Tax paid	0.0	0.0	0.0	0.0	0.0	0.0
Capex/intangibles	(0.9)	0.0	0.0	0.0	0.0	0.0
Interest (net)	0.1	0.0	0.0	0.0	0.0	0.0
<b>Free Cashflow</b>	<b>(17.2)</b>	<b>(6.9)</b>	<b>2.3</b>	<b>13.0</b>	<b>37.8</b>	<b>59.8</b>
Other	0.7	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Financing	0.5	0.0	0.0	0.0	0.0	0.0
<b>Cashflow</b>	<b>(16.0)</b>	<b>(6.9)</b>	<b>2.3</b>	<b>13.0</b>	<b>37.8</b>	<b>59.8</b>
<b>Net cash/(debt)</b>	<b>16.8</b>	<b>9.9</b>	<b>12.3</b>	<b>25.3</b>	<b>63.1</b>	<b>122.9</b>

Source: Stifel estimates

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