

**BUY**

**TARGET PRICE CHANGE**

Price (2 October 2017)	€0.75	
<b>Changes</b>	<b>Previous</b>	<b>Current</b>
Rating	-	BUY
Target Price	€0.68	€1.05

**Key data**

Bloomberg/Reuters codes: PHARM NA / PHAR.AS	
Market cap (€m)	378
Amsterdam Stock	826
Exchange Amsterdam	
Midkap Index	
1mth perf (%)	64.0
3mths perf (%)	126.0
12mths perf (%)	234.9
12mth high-low (€)	1 - 0
Free float (%)	97

**Key financials**

Year to Dec	2016A	2017E	2018E
Sales (€)	15.9	63.9	81.3
EBIT adj	(11.88)	10.58	18.45
EBIT margin (%)	(74.8)	(48.3)	17.7
EPS adj (c)	(0.0)	(0.1)	0.0
EV/EBITDA (x)	--	--	--
PE adj (x)	NA	NA	251.7
Div yield (%)	0.0	0.0	0.0
DPS	--	--	--
FCF yield (%)	0.0	0.0	0.0

Prices are as of close 2 October 2017

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

**Share price performance (indexed)**



## Sales momentum and portfolio progress drive upgrade

### Summary

In our view Pharming's recent strong share price performance (+63% in past 30 days vs +5% Amsterdam Midkap Index) demonstrates a rapid acceleration towards a valuation inflection point we had predicted, but perhaps had not anticipated in terms of pace. We believe the re-rating is justified on: 1) continued sales momentum for Ruconest, 2) fresh shortages of Cinryze and scale-up issues for Haegarda, and 3) positive pipeline developments such as the ahead-of-schedule FDA filing (in 4Q17) for Ruconest prophylaxis use. Primarily due to sustained Ruconest sales performance and the prospects for accelerated growth given competitor issues, we have raised near-term forecasts for Ruconest and increase our target price to €1.05 (vs €0.68). We therefore see further upside potential to the already re-rated stock and reiterate our Buy rating.

### Key Points

**Sustained sales momentum...** Since reacquiring US rights to Ruconest in December 2016, Pharming's modestly larger but significantly 'smarter' sales force (in terms of patient outreach and engagement) has had a dramatic impact on sales of Ruconest, used to treat acute attacks in patients with hereditary angioedema (HAE). According to IMS sales data, average monthly Ruconest revenues in 1H17 were \$5m vs just \$2.2m in 1H16. Similarly, 2Q17 sales at \$16.8m were +25% higher than \$13.4m in 1Q17. Sales in July and August have maintained recent momentum, averaging \$5.3m (see overleaf).

**...with potential further benefit from competitor issues...** In mid-September, Shire announced yet another supply issue for prophylaxis treatment Cinryze. Recall production at Sanquin's facility was suspended in 2016 following an FDA warning letter, which has since been resolved, but had an impact on product availability during 2H16. The current supply issue was confirmed by Shire at the recent HAEA National Patient Summit (15-17 September). While the extent and duration of the shortage is unknown, we would logically expect Ruconest, unencumbered so far by supply constraints, to be a beneficiary. Similarly, we also understand that CSL's recently launched SC prophylaxis product Haegarda is experiencing manufacturing up-scaling issues (also discussed at the HAEA conference). With the potential upside from these issues likely to impact 4Q, we have slightly increased our 3Q17 sales estimate to \$16.8m (vs \$16.1m) but boosted our 4Q17 forecast to \$18.5m (vs \$17.3m). The pull-through effect of this is an increase to FY17 Ruconest US sales to \$66m (vs \$64m) and FY18 sales to \$93m (vs \$80m). Longer term, our peak sales estimate for 2022, for combined sales of Ruconest in both acute and prophylaxis settings, has also increased, c.10% to \$313m vs \$280m previously.

**...as pipeline makes good progress.** Pharming recently announced it was invited by the FDA to file for accelerated FDA approval (expected in 4Q17) for Ruconest in the prophylaxis setting. This follows compelling Phase II data with twice-weekly Ruconest which compares more than favourably to current standard Cinryze. While we expect current growth in the acute setting (using the existing label) to continue with greater awareness, acceptance and demand from patients/physicians/payers for an 'on demand' product like Ruconest, there will clearly be additional use in the prophylaxis setting. Ruconest could become the only product available for both uses, with a compelling efficacy, safety and economic profile compared to competitors in the HAE field.

**Stars are rapidly aligning; increase TP to €1.05; Reiterate Buy.** We raise our rNPV-based TP to €1.05 on the back of increased Ruconest forecasts, and greater operational leverage from additional sales in prophylaxis use, having already made the step-up in required investment into the US commercial infrastructure in 1H17. We would also note that fresh pipeline opportunities in Fabry and Pompe diseases are not specifically included in our model, offering further potential upside. The shifting dynamics in the HAE market increasingly appear to favour a recombinant, 'on demand' product like Ruconest, over expensive, blood-based products (with continual manufacturing constraints) with questionable suitability for prophylaxis use.

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All relevant disclosures and certifications appear on pages 5 - 7 of this report.

Key data<sup>1</sup>

Key valuation ratios (x)				
	2016A	2017E	2018E	2019E
PE adj (x)	NA	NA	251.7	13.3
ROCE (% incl. gross goodwill)	(0.6)	(4.5)	(0.1)	0.5
Div yield (%)	0.0	0.0	0.0	0.0
Key profit and loss data (€)				
	2016A	2017E	2018E	2019E
Sales (€)	15.9	63.9	81.3	119.4
EBITDA adj	(11.1)	13.9	21.7	49.7
EBIT adj	(11.88)	10.58	18.45	46.36
EBIT adj margin (%)	(74.8)	16.6	22.7	38.8
Net income	(17.9)	(39.7)	1.6	30.3
EPS adj (c)	(0.0)	(0.1)	0.0	0.1
DPS (c)	--	--	--	--
Key cash flow data (€)				
	2016A	2017E	2018E	2019E
Operating profit	(11.9)	(30.8)	14.4	42.0
Depreciation	0.0	0.0	0.0	0.0
Other	0	0	0	0
Operating cash flow	(10.1)	5.6	23.0	51.1
Taxes paid	0	0	0	0
Net interest	0.0	(8.9)	(12.8)	(11.7)
Capex	(1.2)	(2.2)	(2.0)	(1.8)
Free cash flow	(11.3)	(5.5)	8.2	37.7
Dividends	--	--	--	--
Change in cash	(58)	(6)	8	20
Net debt	34.6	55.9	28.5	9.0
Key balance sheet (€)				
	2016A	2017E	2018E	2019E
Intangible assets	57	55	50	45
PPE	6	7	7	7
Cash	32	34	58	43

## Key information

## Target price methodology/risks

Our €1.05 per share target price is based on a risk-adjusted product-based NPV valuation. This is based on fully diluted shares to be issued (609m shares), assuming full conversion of outstanding warrants and ordinary convertible bonds.

Risks to the investment include Pharming's ability to successfully execute the US promotional strategy on Ruconest, and that market acceptance may be lower than expected (or unforeseen safety and efficacy issues impact Ruconest). Competition may also increase (new prophylactic treatments), 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 (HAE).

## Senior management

Chairman - Jaap Blaak

Chief Executive Officer - Sijmen de Vries

Chief Operating Officer - Bruno Giannetti

Chief Financial Officer - Robin Wright

## Key dates

26 October 2017 - 9M17 results

## Major shareholders

Kingdon Capital Management - 1.69%

## Website

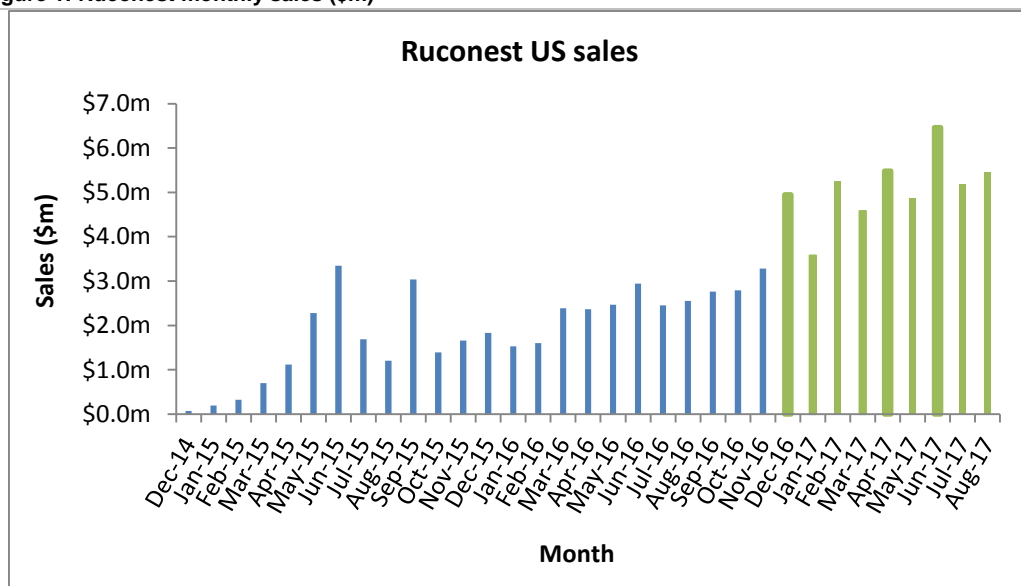
<http://www.pharming.com/>

<sup>1</sup> Year end December

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

# Ruconest sales

Figure 1: Ruconest monthly sales (\$m)



Source: IMS data  
Green bars = sales since Pharming acquired US rights from Valeant Pharmaceuticals in December 2016

## Financials

Figure 2: Pharming P&L (€m)

Year to 31 December	2016A	2017E	2018E	2019E	2020E
€m					
License fees	2.2	1.1	0.8	0.8	0.8
Milestones	0.0	0.0	0.0	0.0	0.0
Ruconest sales and royalties	13.7	62.8	80.5	118.6	162.2
<b>Total sales</b>	<b>15.9</b>	<b>63.9</b>	<b>81.3</b>	<b>119.4</b>	<b>163.0</b>
<i>%ch</i>	47%	302%	27%	47%	36%
COGS %	29.5%	11.4%	10.5%	10.0%	10.0%
COGS	(4.7)	(7.3)	(8.5)	(11.9)	(16.3)
<b>Gross profit</b>	<b>11.2</b>	<b>56.6</b>	<b>72.8</b>	<b>107.5</b>	<b>146.7</b>
General and admin	(4.6)	(1.9)	(2.4)	(2.9)	(3.7)
Marketing and sales	(3.0)	(25.6)	(30.7)	(35.8)	(48.9)
R&D	(15.4)	(18.5)	(21.3)	(22.3)	(23.4)
Amortisation	0.0	(3.3)	(3.3)	(3.3)	(3.3)
Other	0.3	0.0	0.0	0.0	0.0
<b>Operating profit</b>	<b>(11.5)</b>	<b>7.3</b>	<b>15.1</b>	<b>43.1</b>	<b>67.3</b>
Operating margins	-72.7%	11.4%	18.6%	36.1%	41.3%
Net interest	(6.0)	(8.9)	(12.8)	(11.7)	(7.6)
Exceptionals		(41.4)	(4.0)	(4.4)	(3.2)
<b>PBT</b>	<b>(17.5)</b>	<b>(43.0)</b>	<b>(1.7)</b>	<b>27.0</b>	<b>56.6</b>
<i>Tax rate</i>	0.0%	0.0%	0.0%	0.0%	0.0%
Taxation	0	0	0	0	0
<b>Profit after tax</b>	<b>(17.5)</b>	<b>(43.0)</b>	<b>(1.7)</b>	<b>27.0</b>	<b>56.6</b>
<i>Ratios</i>					
<b>EBITDA</b>	<b>(10.8)</b>	<b>10.6</b>	<b>18.4</b>	<b>46.4</b>	<b>70.6</b>
GP	70.5%	88.6%	89.5%	90.0%	90.0%
SG&A	29.2%	3.0%	2.9%	2.5%	2.3%
R&D	96.9%	29.0%	26.1%	18.7%	14.4%
Operating Profit	-72.7%	11.4%	18.6%	36.1%	41.3%
Shares	416	487	525	537	550
<b>EPS (€)</b>	<b>(0.04)</b>	<b>(0.09)</b>	<b>(0.00)</b>	<b>0.05</b>	<b>0.10</b>
adj. EPS (pre-amortisation)	(0.04)	(0.08)	0.00	0.06	0.11
DPS (€)	0.0	0.0	0.0	0.0	0.0

Source: Company data; Stifel estimates

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## Pharming Group N.V. (PHARM.NA) as of October 02, 2017 (in EUR)



\*Represents the value(s) that changed.

Buy=B; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Discontinued=D; Initiation=I

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For a price chart with our ratings and any applicable target price changes for PHARM.NA go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=PHARM.NA>

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