

# PDL BioPharma

Financial update

## Accelerating asset monetization

PDL BioPharma announced that the company is targeting either a complete sale or the monetization of its four key assets by the end of 2020, much faster than the two to three years previously communicated. To this end, the company has enlisted the help of three different advisors, namely Bank of America for the sale of the entire company or the royalty portfolio, Torrey for the sale of Noden and Evofem and SVB Leerink to investigate opportunities for LENSAR. The company will return the value to shareholders in as tax efficient a manner as possible likely via share repurchases or dividends.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
12/18	198.1	78.8	0.45	0.0	6.0	N/A
12/19	54.8	(65.6)	(0.60)	0.0	N/A	N/A
12/20e	115.3	6.5	0.05	0.0	54.4	N/A
12/21e	126.0	12.2	0.09	0.0	30.2	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Timelines accelerated

The company now plans to either sell itself in its entirety or sell or spin off its assets separately by the end of 2020, a significant acceleration compared to the previous estimate of two to three years. PDL has stated that a major reason for this acceleration was to limit the time that PDL remains a public company as there is significant expense associated with that, which would reduce the amount that could be returned to shareholders.

## LENSAR sales up 25% for the year

The LENSAR femtosecond cataract laser business had product revenue of \$8.5m in the quarter, up 19% compared to Q418 and up 5% sequentially. For the full year 2019, sales are up 25%. Importantly, procedure volume for the year is up 33% compared to 2018, with over 100,000 procedures worldwide and 13% market share.

## Significant Evofem catalyst expected in May

Evofem, a clinical-stage biopharmaceutical company, is developing Phexxi (previously Amphora), a hormone-free contraceptive gel that could address a very large market. According to the Centers for Disease Control and Prevention (CDC), 61.7% of the 60.9 million women aged 15–44 use contraception. Evofem re-submitted its New Drug Application (NDA) for Phexxi and a response from the FDA is expected by 25 May 2020.

## Valuation: \$689m or \$5.57 per share

We have decreased our valuation of PDL from \$713m or \$5.73 per basic share, to \$689m or \$5.57 per share. This is mostly the result of lower net cash as well as a reduction in the value of the CareView asset, which the company has almost entirely written down. We will revise our model further as the company progresses through the monetization process.

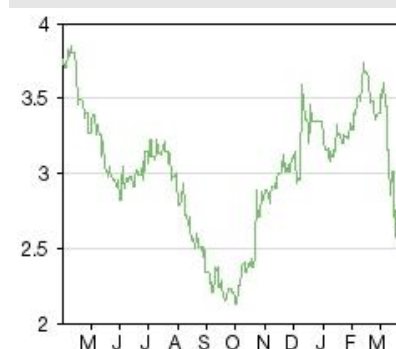
Pharma &amp; biotech

30 March 2020

**Price** **US\$2.72**  
**Market cap** **US\$336m**

Net cash (\$m) at 31 December 2019 (plus repurchases)	149.9
Shares in issue	123.6m
Free float	95.3%
Code	PDLI
Primary exchange	NASDAQ
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(19.5)	(18.3)	(25.5)
Rel (local)	(5.7)	4.1	(17.7)
52-week high/low	US\$3.85	US\$2.13	

### Business description

As of December 2019, PDL BioPharma has ceased to make additional strategic transactions and investments and is pursuing a formal process to unlock the value of its portfolio by monetizing its assets and ultimately distributing net proceeds to shareholders.

### Next event

FDA approval of Phexxi	May 2020
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## Q4 results

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PDL reported net product revenue (LENSAR and Noden) of \$21.0m for the quarter, down 19.2% compared to Q418 due to weakness at Noden as a Tekturna generic has been available in the United States since March. Noden sales of \$12.4m were down 33.8% compared to Q418 although slightly up compared to Q319. Additionally, the company has written down the value of the Noden asset to \$10.1m, taking a \$22.5m charge. The LENSAR femtosecond cataract laser business had product revenue of \$8.5m in the quarter, up 18.8% compared to Q418 and up 5.5% sequentially. For the full year 2019, LENSAR sales are up 24.7%. Importantly, procedure volume for the year is up 33% compared to 2018, with over 100,000 procedures worldwide and 13% market share.

Royalty rights were a negative \$26.8m for the quarter, mainly due to a \$46.3m reduction in the value of the Assertio royalty assets. This reduction is mainly a result of weaker Glumetza sales as well as due to delays in the international launches of some of the other assets in the Assertio portfolio.

PDL reported a net loss of \$54.9m for Q419, which includes the \$22.5m reduction in the value of Noden, the \$46.3m reduction in the value of the Assertio assets and a \$10.8m impairment charge on the CareView note. These one-time charges were partially offset by an \$18.3m increase in the value of the Evofem asset due to an increase in its stock price during the period.

## Valuation

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We have not made any changes to our valuation approach based on the company's strategy to divest/monetize assets or sell the company, but will do so as asset sales occur. We have decreased our valuation of PDL from \$713m or \$5.73 per basic share to \$689m or \$5.57 per share. The decrease is mostly the result of lower net cash and a reduction in the value in our model for the CareView asset (which was almost entirely written down by the company). There were smaller reductions in the values for the Viscogliosi Brothers (VB) and University of Michigan assets. The reductions were partly offset by an increase in the value of LENSAR. We are not reducing our estimated values for Noden and Assertio as our model already reflects some of the recent weakness in operating results. We will change our model further as the company progresses through the monetization process.

**Exhibit 1: PDL valuation table**

Royalty/note	Type	Expiration year	PDL balance sheet carrying value (\$m)	NPV (\$m)
Assertio (formerly Depomed)	Royalty on Glumetza and other products	2024	\$218.7	\$216.3
VB	Royalty on Spine Implant	Undisclosed	\$13.6	\$12.6
University of Michigan	Royalty on Cerdelga	2022	\$20.4	\$10.6
Wellstat	Note (impaired)	Unknown	\$50.2	\$50.2
Hyperion	Note (impaired)	Unknown	\$1.2	\$1.2
LENSAR	Equity		N/A	\$68.8
AcelRx	Royalty on Zalviso	2027	\$13.0	\$10.2
CareView	Note (impaired)	2022	\$0.7	\$0.7
Noden	Equity	N/A	\$10.1	\$14.7
Kybella	Royalty	Unknown	\$0.6	\$0.7
Evoform	Equity	N/A	\$82.3	\$153.2
Total				\$539
Net cash (Q419 + debt transaction and stock buyback) (\$m)				\$149.9
Total firm value (\$m)				\$689
Total basic shares (m)				123.6
Value per basic share (\$)				\$5.57
Total options (m)				0.0
Total number of shares (m)				123.6
Diluted value per share (\$)				\$5.57

Source: Edison Investment Research

## Financials

PDL ended Q419 with \$193.5m in cash. Subsequent to the end of the quarter, the company repurchased approximately 3.8m shares for \$12.9m and repurchased \$13.7m worth of debt. Following the note repurchases, PDL is left with \$17.0m in debt. We continue to believe PDL has enough capital to execute on the remainder of the repurchase program and will be able to initiate additional repurchase programs (or dividends) once assets are monetized successfully.

We have not changed our 2020 estimates markedly following Q419 earnings and are introducing 2021 estimates (though these do not include any asset sales as it would be difficult to know the timing and form of these upcoming transactions). For 2021, we are modelling \$126.0m in sales, an increase of 9.3% over our estimated 2020 revenue number. We expect normalized profits of \$12.2m, an increase from the \$6.5m we expect in 2020.

**Exhibit 2: Financial summary**

	\$000s	2018	2019	2020e	2021e
Year end 31 December		US GAAP	US GAAP	US GAAP	US GAAP
<b>PROFIT &amp; LOSS</b>					
Revenue		198,110	54,757	115,251	125,952
Cost of Sales		(48,460)	(53,619)	(53,106)	(56,522)
Gross Profit		149,650	1,138	62,146	69,430
General & Administrative		(62,559)	(54,080)	(56,243)	(58,493)
EBITDA		84,136	(60,250)	2,194	7,229
Operating Profit (before amort. and except.)		84,136	(60,250)	2,194	7,229
Intangible Amortisation		(15,831)	(6,306)	(6,306)	(6,306)
Other		0	0	0	0
Exceptionals		(118,899)	(33,258)	0	0
Operating Profit		(50,594)	(99,814)	(4,112)	923
Net Interest		(5,328)	(5,374)	4,295	4,958
Other		0	31,448	0	0
Profit Before Tax (norm)		78,808	(65,624)	6,490	12,187
Profit Before Tax (FRS 3)		(55,922)	(73,740)	184	5,881
Tax		(12,937)	3,049	(39)	0
Deferred tax		(0)	(0)	(0)	(0)
Profit After Tax (norm)		65,871	(62,575)	6,451	12,187
Profit After Tax (FRS 3)		(68,859)	(70,691)	145	5,881
Minority interest		0	280	0	0
Profit After Tax less Minority Interest (FRS 3)		(68,859)	(70,411)	145	5,881
Average Number of Shares Outstanding (m)		145.7	118.6	124.4	129.4
EPS - normalised (\$)		0.45	(0.60)	0.05	0.09
EPS - FRS 3 (\$)		(0.47)	(0.59)	0.00	0.05
Dividend per share (c)		0.00	0.00	0.00	0.00
Gross Margin (%)		75.5	2.1	53.9	55.1
EBITDA Margin (%)		42.5	-110.0	1.9	5.7
Operating Margin (before GW and except.) (%)		42.5	-110.0	1.9	5.7
<b>BALANCE SHEET</b>					
Fixed Assets		446,519	402,224	358,934	324,421
Intangible Assets		51,319	23,298	23,298	23,298
Tangible Assets		7,387	5,520	6,673	7,932
Royalty rights		376,510	266,196	221,753	185,981
Other		11,303	107,210	107,210	107,210
Current Assets		517,217	313,895	345,632	404,840
Stocks		0	0	0	0
Debtors		21,648	13,552	13,552	13,552
Cash		394,590	193,451	225,188	284,396
Other		100,979	106,892	106,892	106,892
Current Liabilities		(52,470)	(45,693)	(45,676)	(45,676)
Creditors		(13,142)	(17,370)	(17,370)	(17,370)
Short term borrowings		0	0	0	0
Other		(39,328)	(28,323)	(28,306)	(28,306)
Long Term Liabilities		(181,487)	(77,148)	(77,148)	(77,148)
Long term borrowings		(124,644)	(27,250)	(27,250)	(27,250)
Other long term liabilities		(56,843)	(49,898)	(49,898)	(49,898)
Net Assets		729,779	593,278	581,741	606,437
Minority Interests		0	0	0	0
Shareholder equity		729,779	593,278	581,741	606,437
<b>CASH FLOW</b>					
Operating Cash Flow		(13,425)	(32,443)	(10,299)	(11,077)
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(4,523)	(2,463)	(1,153)	(1,260)
Acquisitions/disposals		57,969	79,272	69,788	71,545
Financing		0	0	0	0
Dividends		(48)	0	0	0
Other		(46,202)	(143,190)	(26,600)	0
Net Cash Flow		(6,229)	(98,824)	31,736	59,208
Opening net debt/(cash)		(283,785)	(269,946)	(166,201)	(197,938)
HP finance leases initiated		0	0	0	0
Exchange rate movements		0	0	0	0
Other		(7,610)	(4,921)	0	0
Closing net debt/(cash)		(269,946)	(166,201)	(197,938)	(257,146)

Source: company accounts, Edison Investment Research

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