

PDL BioPharma

Financial update

Dissolution set for the year end

PDL has made significant progress with its stated objective of monetizing and liquidating the company. Most recently, in October, LENSAR was spun off to PDL shareholders and the previously announced sale of Noden was completed in September. Also, the Kybella, Zalviso and Coflex royalties were sold to SWK Holdings for \$4.35m and a settlement agreement was reached with Wellstat in August. The main assets remaining to be disposed of are the Assertio royalties and the University of Michigan royalties on Cerdelga.

| Year end | Revenue (\$m) | PBT* (\$m) | EPS* (\$) | DPS (\$) | P/E (x) | Yield (%) |
|----------|---------------|------------|-----------|----------|---------|-----------|
| 12/18 | 32.0 | (30.4) | (0.16) | 0.0 | N/A | N/A |
| 12/19 | 30.7 | (44.6) | (0.44) | 0.0 | N/A | N/A |

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. We are also no longer providing forecasts for financials due to the upcoming dissolution of the company.

Delisting at end of 2020

PDL is to file a certificate of dissolution with the State of Delaware on 4 January 2021 and the stock will be delisted after 31 December 2020. The company will continue to exist for a minimum of three years to settle any remaining business.

Noden sold, but more payments to come

PDL divested its Noden subsidiary in September to Stanley Capital, a private equity firm that focuses on healthcare, technology and sustainability. PDL received \$12.2m at deal closure and expects to receive an additional \$33m in equal quarterly installments beginning in January 2021 and continuing through October 2023. There may also be two contingent payments totaling \$3.25m, although the conditions for those payments have not been disclosed. There is an additional \$0.52m in VAT reimbursement expected in 2021 and \$3.86m in four equal quarterly installments in 2023.

Wellstat settlement payments expected in 2021

PDL received \$7.5m upon the signing of its settlement with Wellstat. The remainder of the payments may be paid in two different methods. They can either be split, with \$5m paid by 10 February 2021 and \$55m by 26 July 2021 (\$67.5m in total including the upfront), or paid as a lump sum of \$67.5m by 26 July 2021 (\$75m in total including the upfront). If payment is not made, Wellstat will be liable for \$92.5m with credit for any additional payments made.

Valuation: \$380m or \$3.33 per share

We have decreased our valuation of PDL from \$506m or \$4.44 per basic share to \$380m or \$3.33 per share. The decrease is mainly due to the removal of the NPV of LENSAR and the \$42.7m in cash it took with it in the spinoff. It is important to note that while we still maintain a valuation, we are no longer providing financial forecasts for PDL for future periods due to the dissolution.

Pharma & biotech

17 November 2020

Price **US\$2.41**
Market cap **US\$275m**

Net cash (\$m) at 30 September 2020 (excluding LENSAR) 67.8

Shares in issue 114.2m

Free float 96.5%

Code PDLI

Primary exchange Nasdaq

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 3.9 (22.0) 6.5

Rel (local) (0.2) (27.5) (8.4)

52-week high/low US\$3.36 US\$1.91

Business description

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

Next events

Dissolution/delisting Year-end 2020

Sale of additional royalty assets 2020/21

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A few assets remaining

PDL has made significant progress in the monetization and liquidation of the company's assets. LENSAR was spun off in the form of a dividend of all outstanding LENSAR shares held by PDL to PDL shareholders and is now trading on Nasdaq with the LNSR ticker. Net assets attributable to LENSAR as of the end of Q320 was \$112.4m, including \$42.7m in cash.

Earlier in September, PDL divested its Noden subsidiary to Stanley Capital, a private equity firm that focuses on healthcare, technology and sustainability. PDL received \$12.2m at deal closure and expects an additional \$33m in equal quarterly installments beginning in January 2021 and continuing through to October 2023. There may also be two contingent payments totaling \$3.25m, although the conditions for those payments have not been disclosed. An additional \$0.52m in VAT reimbursement is expected in 2021 followed by \$3.86m in four equal quarterly installments in 2023.

On 12 August the company announced that it had settled litigation related to Wellstat Diagnostics. Under the terms of the agreement, PDL received \$7.5m upfront. The remainder of the payments may be paid in two different methods. They can either be split with \$5m paid by 10 February 2021 and \$55m by 26 July 2021 (\$67.5m total including the upfront), or paid as a lump sum of \$67.5m by 26 July 2021 (\$75m total including the upfront). If payment is not made, Wellstat will be liable for \$92.5m with credit for any payments made.

The main assets remaining to be disposed of are the Assertio royalties and the University of Michigan royalties on Cerdelga. PDL continues to evaluate a sale of these assets under advisement from Bank of America Securities and if unable to consummate an appropriately valued sale, PDL is prepared to retain the assets and distribute royalty revenues to shareholders. The company also currently holds 3.3m warrants in Evofem with an exercise price of \$6.38 per share, which is well above the current share price.

Valuation

We have decreased our valuation of PDL from \$506m or \$4.44 per basic share to \$380m or \$3.33 per share. The decrease is mainly due to the removal of the NPV of LENSAR, which we had previously valued at \$64.4m, and the \$42.7m in cash it took with it in the spinoff. Note that we have also reduced the value of the Wellstat and Noden assets but that is simply due to the receipt of upfront payments during Q3.

| Exhibit 1: PDL valuation table | | | | |
|------------------------------------|--|-----------------|---------------------------------------|-----------|
| Royalty/note | Type | Expiration year | PDL balancesheet carrying value (\$m) | NPV (\$m) |
| Assertio (formerly Depomed) | Royalty on Glumetza and other products | 2024 | \$200.5 | 216.3 |
| University of Michigan | Royalty on Cerdelga | 2022 | \$17.5 | 10.6 |
| Wellstat | Note (impaired) | Unknown | \$50.2 | 54.5 |
| Noden | Equity | N/A | N/A | 30.7 |
| Total | | | | 312 |
| Net cash (Q320 less LENSAR) (\$m) | | | | 67.8 |
| Total firm value (\$m) | | | | 380 |
| Total basic shares (m) | | | | 114.2 |
| Value per basic share (\$) | | | | 3.33 |
| Total options (m) | | | | 0.0 |
| Total number of shares (m) | | | | 114.2 |
| Diluted value per share (\$) | | | | 3.33 |
| Source: Edison Investment Research | | | | |

Financials

Due to the upcoming dissolution of the company, we are no longer providing financial forecasts for PDL for future periods.

PDL reported gross cash of \$125.7m at the end of Q320, though gross cash adjusted for the LENSAR spinout was \$83.0m. The company has convertible notes that have a carrying value of \$15.2m (the principal is \$14.8m). PDL received notices during Q320 to convert \$11.2m worth of the notes so it will have \$3.6m in convertible debt principal left outstanding.

Exhibit 2: Financial summary

| | \$000s | 2018 | 2019 |
|---|--------|-----------|-----------|
| Year end 31 December | | US GAAP | US GAAP |
| PROFIT & LOSS | | | |
| Revenue | | 32,028 | 30,706 |
| Cost of Sales | | (13,555) | (17,276) |
| Gross Profit | | 18,473 | 13,430 |
| General & Administrative | | (40,041) | (45,345) |
| EBITDA | | (24,327) | (39,265) |
| Operating Profit (before amort. and except.) | | (24,327) | (39,265) |
| Intangible Amortisation | | (1,294) | (1,290) |
| Other | | 0 | 0 |
| Exceptionals | | (8,569) | (10,768) |
| Operating Profit | | (34,190) | (51,323) |
| Net Interest | | (6,092) | (5,374) |
| Other | | 764 | 31,448 |
| Profit Before Tax (norm) | | (30,419) | (44,639) |
| Profit Before Tax (FRS 3) | | (39,518) | (25,249) |
| Tax | | 6,753 | 1,021 |
| Deferred tax | | (0) | (0) |
| Profit After Tax (norm) | | (23,666) | (43,618) |
| Profit After Tax (FRS 3) | | (32,765) | (24,228) |
| Minority interest | | 0 | 280 |
| Profit After Tax less Minority Interest (FRS 3) | | (32,765) | (23,948) |
| Average Number of Shares Outstanding (m) | | 145.7 | 118.6 |
| EPS - normalised (\$) | | (0.16) | (0.44) |
| EPS - FRS 3 (\$) | | (0.22) | (0.20) |
| Dividend per share (c) | | 0.00 | 0.00 |
| Gross Margin (%) | | 57.7 | 43.7 |
| EBITDA Margin (%) | | -76.0 | -127.9 |
| Operating Margin (before GW and except.) (%) | | -76.0 | -127.9 |
| BALANCE SHEET | | | |
| Fixed Assets | | 448,291 | 403,311 |
| Intangible Assets | | 13,700 | 13,186 |
| Tangible Assets | | 3,705 | 2,560 |
| Royalty rights | | 0 | 0 |
| Other | | 430,886 | 387,565 |
| Current Assets | | 517,217 | 313,895 |
| Stocks | | 0 | 0 |
| Debtors | | 4,774 | 6,559 |
| Cash | | 365,680 | 168,982 |
| Other | | 146,763 | 138,354 |
| Current Liabilities | | (52,469) | (45,693) |
| Creditors | | (2,529) | (2,675) |
| Short term borrowings | | 0 | 0 |
| Other | | (49,940) | (43,018) |
| Long Term Liabilities | | (183,260) | (78,235) |
| Long term borrowings | | (124,644) | (27,250) |
| Other long term liabilities | | (58,616) | (50,985) |
| Net Assets | | 729,779 | 593,278 |
| Minority Interests | | 0 | 0 |
| Shareholder equity | | 729,779 | 593,278 |
| CASH FLOW | | | |
| Operating Cash Flow | | (13,425) | (32,444) |
| Net Interest | | 0 | 0 |
| Tax | | 0 | 0 |
| Capex | | (1,117) | (2,463) |
| Acquisitions/disposals | | 366 | 0 |
| Financing | | 0 | 0 |
| Dividends | | (48) | 0 |
| Other | | 7,995 | (63,917) |
| Net Cash Flow | | (6,229) | (98,824) |
| Opening net debt/(cash) | | (283,785) | (241,036) |
| HP finance leases initiated | | 0 | 0 |
| Exchange rate movements | | 0 | 0 |
| Other | | (36,520) | (480) |
| Closing net debt/(cash) | | (241,036) | (141,732) |

Source: Company accounts

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