

PDL BioPharma

Financial update

Raising guidance

PDL BioPharma reported Q319 results with revenue of \$44.2m, down 35% compared to Q318 mainly due to a \$31.6m change in fair value in the Assertio royalty rights in that quarter. Importantly LENSAR revenues were \$8.1m, up 22% compared to the prior year, mainly due to increased sales in Asia. Following these results, the company has increased guidance for 2019 for LENSAR from a range of \$27–29m to over \$29m and for cash royalties from a range of \$60–65m to over \$65m.

| Year end | Revenue (\$m) | PBT* (\$m) | EPS* (\$) | DPS (\$) | P/E (x) | Yield (%) |
|----------|---------------|------------|-----------|----------|---------|-----------|
| 12/17 | 320.1 | 200.3 | 0.81 | 0.00 | 3.8 | N/A |
| 12/18 | 198.1 | 78.8 | 0.45 | 0.00 | 6.8 | N/A |
| 12/19e | 102.6 | (15.9) | (0.16) | 0.00 | N/A | N/A |
| 12/20e | 124.8 | 7.7 | 0.06 | 0.00 | 51.3 | N/A |

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

Evoform Phase IIb data and FDA submission coming

Evoform is expected to announce top-line results from its 860-subject Phase IIb AMPREVENCE trial evaluating Amphora for the prevention of chlamydia in November. Additionally, the company remains on track to resubmit its Amphora NDA for pregnancy prevention in Q419, with approval expected in Q220.

LENSAR continues to grow strongly

The LENSAR femtosecond cataract laser business had product revenue of \$8.1m in the quarter, up 22% compared to Q318 and up 9% sequentially. Importantly, procedure volume over the first nine months is up 30% compared to the previous year, with the company now at an estimated 13% market share in the space (the fourth largest player after Alcon, Johnson & Johnson and Ziemer).

Strategic review initiated

The company initiated a strategic and financial review with an external financial advisor in September to provide an independent perspective on its business. The company has quite a few possible paths with regards to capital allocation, including returning additional capital to shareholders (the company recently completed its third stock buyback program, repurchasing around 32% of its shares since March 2017), focusing capital on existing investments or making additional investments.

Valuation: \$730m or \$6.39 per share

We have increased our valuation from \$713m or \$6.24 per basic share to \$730m or \$6.39 per share, mainly due to a higher net cash level and increased estimates for LENSAR following Q3 results and increased guidance. We await the AMPREVENCE trial data from Evoform as we currently do not include any value for the use of Amphora for the prevention of chlamydia in our model.

Pharma & biotech

20 November 2019

Price US\$3.08
Market cap US\$352m

| | |
|-------------------------------------|--------|
| Net cash (\$m) at 30 September 2019 | 144.3 |
| Shares in issue | 114.2m |
| Free float | 91.9% |
| Code | PDLI |
| Primary exchange | Nasdaq |
| Secondary exchange | N/A |

Share price performance



Business description

PDL BioPharma is applying its capital and expertise to build a portfolio of actively managed positions in innovative biotech and pharmaceutical companies with high growth potential. It markets Tekturna/Rasilez for hypertension through its Noden subsidiary and a cataract surgical equipment business through LENSAR. PDL has a strategic investment in Evoform, a women's health company.

Next events

| | |
|-------------------------------------|---------------|
| Evoform Phase IIb data in chlamydia | November 2019 |
| Evoform NDA filing | Q419 |

Analysts

| | |
|------------------|-----------------|
| Maxim Jacobs | +1 646 653 7027 |
| Wiktorina O'Hare | +1 646 653 7028 |

healthcare@edisongroup.com

[Edison profile page](#)

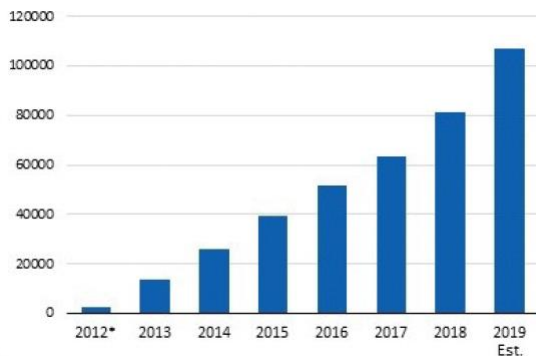
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Q3 results

PDL reported Q319 revenues of \$44.2m with \$20.3m in net product revenue (LENSAR and Noden) and \$23.9m coming from royalty rights. Noden net revenue was \$12.3m in the quarter, down 31% compared to Q318. Noden revenue in the US was down 37% to \$6.1m, mainly due to the launch of a third-party generic in the United States in March of this year. Gross margin fell to 16% from 29% last quarter as there was a negative 39% gross margin outside the US because of the one-time end of contract fees related to a manufacturing supply agreement that was booked in the quarter. Noden booked an operating loss of \$2.1m for the quarter, compared to a \$4.1m profit in Q318, mainly due to that one-time fee.

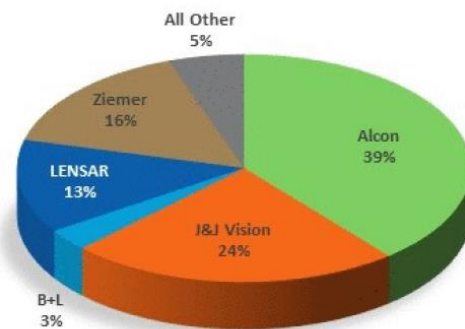
Additionally, LENSAR had product revenue of \$8.1m in the quarter, up 22% compared to Q318 and up 9% sequentially with most of the growth attributed to the Asian market. Importantly, procedure volume has grown around 30% over the first nine months of the year. The company expects to exit 2019 having around 107,000 procedures performed using its technology (see Exhibit 1). LENSAR is currently in the fourth position in this market after Alcon, Johnson & Johnson and Ziemer (see Exhibit 2).

Exhibit 1: LENSAR procedures per year



Source: PDL, Market Scope. Note: Product launch July 2012.

Exhibit 2: Revenue market share in the femtosecond laser market



Source: PDL, Market Scope

Gross margin for LENSAR increased from 34% to 41% though the quarterly loss for LENSAR was \$3.3m, which is higher than last quarter's \$1.7m and the \$0.9m loss in Q318. The loss was due to a one-time cash payment of \$3.5m for intellectual property to a third party, which was booked as R&D. This was related to the development of a second-generation (GEN2) LENSAR system that would integrate the laser system with a phacoemulsification system, which would lead to a device that would be able to perform all forms of cataract surgery.

PDL reported a net loss of \$18.0m for the quarter, due to a \$27.4m non-cash charge following a decline in the stock price of Evofem. Evofem's share price has been under pressure since June as Woodford Investment Management, which owned 27% of Evofem as of the end of Q2, suspended trading in the Woodford Equity Income Fund that held the majority of its Evofem holding. That fund has since been going through a liquidation process, creating sustained uncertainty that has depressed Evofem's share price. The liquidation process is expected to be completed in Q120, removing the overhang on the Evofem shares. PDL's investment in Evofem was still up 30% or \$18m at the end of Q319.

Valuation

We have increased our valuation from \$713m or \$6.24 per basic share to \$730m or \$6.39 per share, mainly due to a higher net cash level and increased estimates for LENSAR, which we now value at \$65.2m (versus \$61.2m previously). We await the AMPREVENCE trial data from Evofem as we currently do not include any value for the use of Amphora for the prevention of chlamydia in our model.

| Exhibit 3: 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 | 265.0 | 271.1 |
| VB | Royalty on Spine Implant | Undisclosed | 14.5 | 14.7 |
| University of Michigan | Royalty on Cerdelga | 2022 | 21.2 | 12.8 |
| Wellstat | Note (Impaired) | Unknown | 50.2 | 50.2 |
| Hyperion | Note (Impaired) | Unknown | 1.2 | 1.2 |
| LENSAR | Equity | | N/A | 65.2 |
| AcelRx | Royalty on Zalviso | 2027 | 12.7 | 10.8 |
| CareView | Note (Impaired) | 2022 | 11.5 | 11.5 |
| Noden | Equity | N/A | 34.8 | 14.4 |
| Kybella | Royalty | Unknown | 0.6 | 0.7 |
| Evofem | Equity | N/A | 67.2 | 133.1 |
| Total | | | | 586 |
| Net cash (Q319) (\$m) | | | | 144.3 |
| Total firm value (\$m) | | | | 730 |
| Total basic shares (m) | | | | 114.2 |
| Value per basic share (\$) | | | | 6.39 |
| Total options (m) | | | | 0.0 |
| Total number of shares (m) | | | | 114.2 |
| Diluted value per share (\$) | | | | 6.39 |

Source: Edison Investment Research.

Financials

We have increased our FY19 revenue estimate from \$91.3m to \$102.6m and our FY20 revenue estimate from \$123.6m to \$124.8m due to a higher than expected revenue run rate in the quarter. We also increased our SG&A estimates by \$3.8m in FY19 and by \$3.9m in FY20 due to higher expenses. Our R&D estimate for the year increased from \$3.5m to \$7.0m due to the one-time cash payment related to intellectual property for LENSAR, though we have maintained our FY20 estimate.

The company ended the quarter with \$294.3m in cash and currently has \$150m in principal owed in the form of convertible debt. In September, the company exchanged \$86.1m of its debt due in December 2021 for \$86.1m in debt due in December 2024, leaving \$63.9m in debt due in December 2021.

Exhibit 4: Financial summary

| | \$000s | 2017 | 2018 | 2019e | 2020e |
|---|--------|-----------|-----------|-----------|-----------|
| Year end 31 December | | US GAAP | US GAAP | US GAAP | US GAAP |
| PROFIT & LOSS | | | | | |
| Revenue | | 320,060 | 198,110 | 102,641 | 124,800 |
| Cost of Sales | | (30,537) | (48,460) | (52,540) | (53,106) |
| Gross Profit | | 289,523 | 149,650 | 50,102 | 71,694 |
| General & Administrative | | (63,324) | (62,559) | (53,494) | (55,634) |
| EBITDA | | 218,818 | 84,136 | (10,343) | 12,534 |
| Operating Profit (before amort. and except.) | | 218,818 | 84,136 | (10,343) | 12,534 |
| Intangible Amortisation | | (24,689) | (15,831) | (6,320) | (6,320) |
| Other | | 0 | 0 | 0 | 0 |
| Exceptionals | | (349) | (118,899) | 0 | 0 |
| Operating Profit | | 193,780 | (50,594) | (16,663) | 6,214 |
| Net Interest | | (18,562) | (5,328) | (5,517) | (4,873) |
| Other | | 9,309 | 0 | 17,685 | 0 |
| Profit Before Tax (norm) | | 200,256 | 78,808 | (15,860) | 7,661 |
| Profit Before Tax (FRS 3) | | 184,527 | (55,922) | (4,495) | 1,341 |
| Tax | | (73,826) | (12,937) | (3,117) | (282) |
| Deferred tax | | (0) | (0) | (0) | (0) |
| Profit After Tax (norm) | | 126,430 | 65,871 | (18,977) | 7,379 |
| Profit After Tax (FRS 3) | | 110,701 | (68,859) | (7,612) | 1,059 |
| Minority interest | | (47) | 0 | 0 | 0 |
| Profit After Tax less Minority Interest (FRS 3) | | 110,654 | (68,859) | (7,612) | 1,059 |
| Average Number of Shares Outstanding (m) | | 155.4 | 145.7 | 118.5 | 123.3 |
| EPS - normalised (\$) | | 0.81 | 0.45 | (0.16) | 0.06 |
| EPS - FRS 3 (\$) | | 0.71 | (0.47) | (0.06) | 0.01 |
| Dividend per share (c) | | 0.00 | 0.00 | 0.00 | 0.00 |
| Gross Margin (%) | | 90.5 | 75.5 | 48.8 | 57.4 |
| EBITDA Margin (%) | | 68.4 | 42.5 | -10.1 | 10.0 |
| Operating Margin (before GW and except.) (%) | | 68.4 | 42.5 | -10.1 | 10.0 |
| BALANCE SHEET | | | | | |
| Fixed Assets | | 602,680 | 446,519 | 427,203 | 384,008 |
| Intangible Assets | | 215,823 | 51,319 | 47,349 | 47,349 |
| Tangible Assets | | 7,222 | 7,387 | 6,917 | 8,165 |
| Royalty rights | | 349,223 | 376,510 | 282,549 | 238,106 |
| Other | | 30,412 | 11,303 | 90,388 | 90,388 |
| Current Assets | | 640,443 | 517,217 | 422,971 | 492,666 |
| Stocks | | 0 | 0 | 0 | 0 |
| Debtors | | 31,183 | 21,648 | 12,581 | 12,581 |
| Cash | | 527,266 | 394,590 | 310,352 | 380,047 |
| Other | | 81,994 | 100,979 | 100,038 | 100,038 |
| Current Liabilities | | (193,109) | (52,470) | (44,139) | (44,122) |
| Creditors | | (19,785) | (13,142) | (13,255) | (13,255) |
| Short term borrowings | | (126,066) | 0 | 0 | 0 |
| Other | | (47,258) | (39,328) | (30,884) | (30,867) |
| Long Term Liabilities | | (204,124) | (181,487) | (186,785) | (186,785) |
| Long term borrowings | | (117,415) | (124,644) | (132,484) | (132,484) |
| Other long term liabilities | | (86,709) | (56,843) | (54,301) | (54,301) |
| Net Assets | | 845,890 | 729,779 | 619,250 | 645,767 |
| Minority Interests | | 0 | 0 | 0 | 0 |
| Shareholder equity | | 845,890 | 729,779 | 619,250 | 645,767 |
| CASH FLOW | | | | | |
| Operating Cash Flow | | 40,624 | (13,425) | (22,696) | (17,942) |
| Net Interest | | 0 | 0 | 0 | 0 |
| Tax | | 0 | 0 | 0 | 0 |
| Capex | | (1,297) | (4,523) | (2,545) | (1,248) |
| Acquisitions/disposals | | 128,415 | 57,969 | 84,110 | 88,885 |
| Financing | | 0 | 0 | 0 | 0 |
| Dividends | | (222) | (48) | 0 | 0 |
| Other | | 212,592 | (46,202) | (135,656) | 0 |
| Net Cash Flow | | 380,112 | (6,229) | (76,787) | 69,695 |
| Opening net debt/(cash) | | 85,289 | (283,785) | (269,946) | (177,868) |
| HP finance leases initiated | | 0 | 0 | 0 | 0 |
| Exchange rate movements | | 0 | 0 | 0 | 0 |
| Other | | (11,038) | (7,610) | (15,291) | 0 |
| Closing net debt/(cash) | | (283,785) | (269,946) | (177,868) | (247,563) |

Source: Edison Investment Research, PDL BioPharma reports

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia