

# PDL BioPharma

Financial update

## Buyback significantly reduces share count

PDL BioPharma reported 2018 revenues of \$198.1m, down 38.1% compared to 2017. This was due to the dwindling of Queen et al patent revenues and because 2017 results were unusually strong due to a large increase in the fair value of the Assertio royalty stream and a settlement payment from Merck. The company also announced that it has bought back \$61m worth of its shares since the beginning of the \$100m stock repurchase program announced last September. Earlier in March PDL announced the launch of an authorized generic for Tekturna, we note that another generic from Anchen Pharmaceuticals expected to follow, though timing is unclear.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
12/17	320.1	200.3	0.81	0.00	4.6	N/A
12/18	198.1	78.8	0.45	0.00	8.2	N/A
12/19e	122.5	58.7	0.38	0.00	9.7	N/A
12/20e	124.5	59.8	0.37	0.00	10.0	N/A

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

## Transition away from a direct salesforce successful

In August, PDL announced that Noden would discontinue its 60+ person contract salesforce and instead contract with Archer Healthcare to focus on email, direct mail and telesales. As a result, US Tekturna sales were up slightly while net income for Noden grew to \$10.5m from \$4.1m in Q318.

## Tekturna generics

Earlier this month, the company announced that Prasco Laboratories, under an agreement with Noden Pharma, has launched an authorized generic of Tekturna. The settlement agreement state that Anchen Pharmaceuticals can launch its own generic version after 1 March 2019, but the timing is unclear. Due to the complexity in manufacturing Tekturna, the company does not expect additional generic competitors beyond Anchen.

## Big change in strategy coming?

PDL continues to look for additional product acquisitions but has expanded its focus to include those that have not yet begun Phase III trials, and thus not just commercial or near-commercial products. If such an acquisition does occur, this would represent a big change in strategy as the company has avoided products requiring further clinical trials, and the large R&D expenditures that go with them.

## Valuation: \$757m or \$5.91 per share

We have adjusted our valuation to \$757m or \$5.91 per basic share, from \$786m or \$5.39 per share. The decrease in the total valuation is mainly due to rolling forward our NPVs (due to shorter royalty runways), lowering the value of the CareView asset and a lower level of net cash. However, the per share value has increased due to the significant number of shares the company has repurchased.

Pharma &amp; biotech

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**Price** **US\$3.7**  
**Market cap** **US\$474m**

Net cash (\$m) at 31 December 2018	244.6
Shares in issue	128.1m
Free float	91.9%
Code	PDLI
Primary exchange	NASDAQ
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	1.9	33.6	25.9
Rel (local)	1.0	17.0	18.7
52-week high/low	US\$3.8	US\$2.3	

### Business description

PDL BioPharma currently has a collection of healthcare-related royalty and note assets as well as Tekturna/Rasilez for hypertension. PDL is currently seeking additional commercial-stage pharmaceutical assets with multiple-year revenue growth potential, as well as late clinical-stage pharmaceutical products.

### Next event

China Rasilez launch	H119
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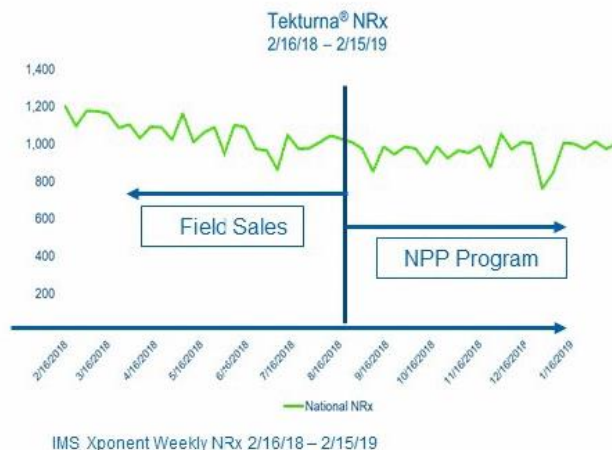
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## Earnings update

PDL reported Q418 revenues of \$45.1m, down 33.7% compared to Q417 and down 33.5% sequentially. The weakness compared to Q417 is due to the fact that royalties from the Queen et al patents dwindled to just \$2,000 in Q418, Noden sales have fallen y-o-y, and there had been a one-time settlement payment from Valeant in Q417. The sequential comparison was challenging given a large change in fair value recorded in Q318 for the Assertio royalty rights following the purchase of Assertio's remaining interest in those assets. Note that historically changes to the fair value of royalty assets have made PDL's financial results lumpy, with large swings occurring on a quarterly basis.

Noden Q418 product revenue of \$18.8m was down 25.2% compared to Q417 but up 5.8% compared to Q318. The sequential growth occurred despite the company announcing in August that it was transitioning away from its 60+ person contract salesforce and would instead contract with Archer Healthcare to focus on email, direct mail and telesales, which has proven to be surprisingly effective (see Exhibit 1). This transition also led to company sales and marketing expenses falling to \$2.8m from \$3.5m in Q318 and \$6.5m in Q417. As a result, net income for Noden grew to \$10.5m from \$4.1m last quarter. It is difficult to gauge what profitability will look like going forward as an authorized generic has been launched and Anchen will likely launch its own generic soon.

### Exhibit 1: Tekturna prescriptions through the salesforce transition



Source: PDL BioPharma

Also, as a reminder, Lee's Pharmaceutical Holdings, which has licensed the rights to Tekturna/Rasilez from Noden for China, Hong Kong, Macau and Taiwan, is on track to launch in China in H119. Our current forecasts do not include any revenues for Tekturna/Rasilez in China, so any meaningful sales there could provide additional upside.

Additionally, LENSAR generated revenues of \$7.2m in Q418, up 8.4% for the quarter. However, profitability deteriorated slightly with a quarterly loss of \$1.7m compared to \$0.9m last quarter.

## What's next for PDL?

With the Tekturna franchise going generic and PDL stating it will not be investing in any more royalty or debt assets, the company is at a crossroads. Historically the company has been looking to acquire commercial or near-commercial assets, but based on company comments on the Q418 earnings call, it is clear that it is willing to look at assets at an earlier stage of development (at the end of Phase II or later). If such an acquisition is consummated, the company would look far

different than it does today as currently it does not have any in-house clinical development expertise. In addition, as PDL has stated it is looking at assets in a variety of different indications, it is unclear what the company might look like after such a transformation occurs as different diseases require different clinical and commercial organizations. PDL has historically been conservative in its acquisitions and price conscious even when it has been interested in purchasing an asset so we believe it is unlikely the company will overpay for an asset but the possibility of a major transformation still exists.

## Valuation

We have adjusted our valuation to \$757m or \$5.91 per basic share, from \$786m or \$5.39 per share. The decrease in the total valuation is mainly due to rolling forward our NPVs (due to shorter royalty runways), lowering the value of the CareView asset and a lower level of net cash. The reason for lowering the value of the CareView note receivable is due to two recent deferments of principal and interest payments and a determination by PDL that the note was impaired and that an \$8.2m impairment loss was necessary. We have removed all principal and interest payments from Careview from our model and lowered the value to the carrying value on the PDL balance sheet. The per share value increased as the company is in the midst of a \$100m share repurchase program that was announced last September and has so far deployed \$61m of that to buy back 19.4m shares.

<b>Exhibit 2: PDL valuation</b>				
Royalty/note	Type	Expiration year	PDL balance sheet carrying value (\$m)	NPV (\$m)
Assertio (formerly Depomed)	Royalty on Glumetza and other products	2024	\$264.4	\$271.1
VB	Royalty on Spine Implant	Undisclosed	\$14.1	\$14.7
University of Michigan	Royalty on Cerdelga	2022	\$25.6	\$12.8
Wellstat	Note (Impaired)	Unknown	\$50.2	\$50.2
Hyperion	Note (Impaired)	Unknown	\$1.2	\$1.2
Lensar	Equity		N/A	\$56.2
AcelRx	Royalty on Zalviso	2027	\$70.4	\$73.7
CareView	Note (impaired)	2022	\$11.5	\$11.5
Noden	Equity	N/A	\$37.6	\$19.9
Kybella	Royalty	Unknown	\$2.7	\$0.8
Total				\$512
Net cash (Q418) (\$m)				\$244.6
<b>Total firm value (\$m)</b>				<b>\$757</b>
Total basic shares (m)				128.1
<b>Value per basic share (\$)</b>				<b>\$5.91</b>
Total options (m)				1.4
Total number of shares (m)				129.5
Diluted value per share (\$)				\$5.84

Source: Edison Investment Research

## Financials

We have decreased our estimated FY19 revenues to \$122.5m from \$126.9 mainly due to the expected loss of interest revenue from the CareView note. We have also decreased our SG&A estimates to \$35.2m from \$72.4m for FY19 as the company is spending at a much lower run rate than expected, mainly due to cost-cutting at Noden. We have introduced our FY20 estimates with revenues expected to grow slightly to \$124.5m. The company ended the quarter with \$394.6m in cash (\$244.6m in net cash).

**Exhibit 3: Financial summary**

	\$000s	2017	2018	2019e	2020e
Year end 31 December		US GAAP	US GAAP	US GAAP	US GAAP
<b>PROFIT &amp; LOSS</b>					
Revenue		320,060	198,110	122,504	124,544
Cost of Sales		(30,537)	(48,460)	(29,060)	(29,348)
Gross Profit		289,523	149,650	93,445	95,197
General & Administrative		(63,324)	(62,559)	(35,164)	(36,571)
EBITDA		218,818	84,136	55,326	55,671
Operating Profit (before amort. and except.)		218,818	84,136	55,326	55,671
Intangible Amortisation		(24,689)	(15,831)	(15,831)	(15,831)
Other		0	0	0	0
Exceptionals		(349)	(118,899)	0	0
Operating Profit		193,780	(50,594)	39,495	39,840
Net Interest		(18,562)	(5,328)	3,387	4,138
Other		9,309	0	0	0
Profit Before Tax (norm)		200,256	78,808	58,713	59,809
Profit Before Tax (FRS 3)		184,527	(55,922)	42,882	43,978
Tax		(73,826)	(12,937)	(9,005)	(9,235)
Deferred tax		(0)	(0)	(0)	(0)
Profit After Tax (norm)		126,430	65,871	49,707	50,574
Profit After Tax (FRS 3)		110,701	(68,859)	33,876	34,743
Minority interest		(47)	0	0	0
Profit After Tax less Minority Interest (FRS 3)		110,654	(68,859)	33,876	34,743
Average Number of Shares Outstanding (m)		155.4	145.7	129.9	135.1
EPS - normalised (\$)		0.81	0.45	0.38	0.37
EPS - FRS 3 (\$)		0.71	(0.47)	0.26	0.26
Dividend per share (c)		0.00	0.00	0.00	0.00
Gross Margin (%)		90.5	75.5	76.3	76.4
EBITDA Margin (%)		68.4	42.5	45.2	44.7
Operating Margin (before GW and except.) (%)		68.4	42.5	45.2	44.7
<b>BALANCE SHEET</b>					
Fixed Assets		602,680	446,519	340,011	290,082
Intangible Assets		215,823	51,319	51,319	51,319
Tangible Assets		7,222	7,387	8,612	9,857
Royalty rights		349,223	376,510	271,087	219,912
Other		30,412	11,303	8,993	8,993
Current Assets		640,443	517,217	630,202	745,296
Stocks		0	0	0	0
Debtors		31,183	21,648	21,648	21,648
Cash		527,266	394,590	507,575	622,669
Other		81,994	100,979	100,979	100,979
Current Liabilities		(193,109)	(52,470)	(52,470)	(52,454)
Creditors		(19,785)	(13,142)	(13,142)	(13,142)
Short term borrowings		(126,066)	0	0	0
Other		(47,258)	(39,328)	(39,328)	(39,312)
Long Term Liabilities		(204,124)	(181,487)	(181,487)	(181,487)
Long term borrowings		(117,415)	(124,644)	(124,644)	(124,644)
Other long term liabilities		(86,709)	(56,843)	(56,843)	(56,843)
Net Assets		845,890	729,779	736,257	801,437
Minority Interests		0	0	0	0
Shareholder equity		845,890	729,779	736,257	801,437
<b>CASH FLOW</b>					
Operating Cash Flow		40,624	(13,425)	14,500	13,990
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(1,297)	(4,523)	(1,225)	(1,245)
Acquisitions/disposals		128,415	57,969	99,710	102,350
Financing		0	0	0	0
Dividends		(222)	(48)	0	0
Other		212,592	(46,202)	0	0
Net Cash Flow		380,112	(6,229)	112,985	115,094
Opening net debt/(cash)		85,289	(283,785)	(269,946)	(382,931)
HP finance leases initiated		0	0	0	0
Exchange rate movements		0	0	0	0
Other		(11,038)	(7,610)	0	0
Closing net debt/(cash)		(283,785)	(269,946)	(382,931)	(498,025)

Source: Edison Investment Research, PDL BioPharma reports

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