

PDL BioPharma

Selling off Noden

Financial update

Pharma & biotech

25 August 2020

Price **US\$3.36**

Market cap **US\$383m**

Net cash (\$m) at 30 June 2020 110.5

Shares in issue 114.0m

Free float 89.5%

Code PDLI

Primary exchange NASDAQ

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 13.9 1.5 67.5

Rel (local) 6.7 (12.6) 39.0

52-week high/low US\$3.64 US\$1.73

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 events

Potential LENSAR spin-off 2020/21

Sale of additional royalty assets 2020/21

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PDL BioPharma recently announced an agreement to divest its Noden subsidiary to Stanley Capital for up to \$48.25m in cash. \$12m is due at deal closure (currently expected in mid-August), with an additional \$33m to be paid in quarterly instalments from 2021–23. There could potentially be two contingent payments of \$3.25m in total. PDL has also announced that its LENSAR subsidiary has confidentially filed with the Securities and Exchange Commission (SEC) for a potential spin-off, which may occur as early as late September, although it is still seeking a strategic transaction.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
12/18	32.0	(30.4)	(0.16)	0.0	7.9	N/A
12/19	30.7	(44.6)	(0.44)	0.0	N/A	N/A
12/20e	23.1	(41.0)	(0.22)	0.0	N/A	N/A
12/21e	32.6	(36.1)	(0.32)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortization of acquired intangibles, exceptional items and share-based payments. Note that FY18 and FY19 were restated.

Noden going to private equity

PDL is divesting its Noden subsidiary to Stanley Capital, a private equity firm that focuses on healthcare, technology and sustainability. PDL expects to receive \$12m at deal closure, and 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.

LENSAR sales down 31% in Q220

The LENSAR femtosecond cataract laser business had product revenue of \$5.1m in Q220, down 31% compared to Q219 due to the COVID-19 pandemic. April had been the weakest month of the quarter in the US, although by June monthly revenue was within 14–18% of pre-COVID-19 (January/February) levels.

Spin-off of LENSAR possible in coming months

The company announced that LENSAR confidentially submitted a registration statement with the SEC related to a potential spin-off. Timing is uncertain, but management would like to avoid any market turbulence related to the US presidential election. If the spin-off does not occur in the late-September to mid-October timeframe, it may need to wait until 2021. Additionally, the company is still seeking a strategic transaction for LENSAR.

Valuation: \$506m or \$4.44 per share

We have increased our valuation of PDL from \$496m or \$4.26 per basic share to \$506m or \$4.44 per share. The increase was mainly due to the terms of the Noden sale, LENSAR business improvement and the Wellstat Diagnostics settlement. This was partially offset by the decrease in value of the AcclRx and Viscogliosi Brothers (VB) assets as well as lower net cash. The number of shares outstanding also declined, improving the value per share.

Q2 results

PDL reported revenues from continuing operations of \$5.2m. This is down significantly from historically reported numbers as the company has recategorized how it reports results. The vast majority of its assets (such as Noden and the royalty assets) are now classified as assets held for sale and counted as discontinued operations. Reported revenues now consist almost entirely of the results for LENSAR. LENSAR sales were down 31% compared to last year as COVID-19 had a major impact on the volume of cataract surgery. April had been the weakest month of the quarter in the US, although by June monthly revenue was approaching pre-COVID-19 levels.

Noden revenue was \$8.2m, down 22% compared to Q219, mainly due to generic competition in the US. PDL also recorded an additional \$16.8m loss in the quarter due to a reduction in the estimated fair value of the Noden entity following negotiations for its sale.

Royalty assets provided negative \$16.3m in implied revenue due to \$27.8m in reductions in estimated fair value across assets. Approximately half of this fair value reduction was due to AcelRx, which announced in Q220 that the marketer of Zalviso, Grünenthal, terminated the license agreement. This led to a \$13.2m reduction in the estimated fair value of that asset (effectively the entirety of the value). A further \$9.4m reduction in fair value measurement came from the VB asset, as informed by bids received during the monetization process.

Additionally, the company announced on 12 August that it has settled litigation related to Wellstat Diagnostics. As a reminder, the Wellstat Diagnostics notes have been carried on the PDL balance sheet with a value of \$51.4m. Under the terms of the agreement, PDL is to be paid \$7.5m upfront, and this payment has been made. The remainder of the payments may be paid in two different methods. They can either be split up 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 additional payments made.

Valuation

We have increased our valuation of PDL from \$496m or \$4.26 per basic share to \$506m or \$4.44 per share. The increase was mainly due to the terms of the Noden sale, LENSAR business improvement and the Wellstat Diagnostics settlement. For Noden, we are no longer discounting the operating cash flows of the subsidiary, but are instead valuing it based on the payments that PDL expects to receive from Stanley Capital. Although the Stanley Capital agreement stipulates up to \$48.25m in payments, we are currently valuing Noden at \$35.8m, based on discounting the announced upcoming payments through 2023, excluding the value of the contingency payments of \$3.25m (as PDL has not disclosed what the contingency payments depend on).

For LENSAR, we had expected a much weaker Q2 and, while April was extremely weak, there has been a substantial recovery over the rest of the quarter, [with June revenues returning to within 14–18% of January/February levels](#). With the Wellstat Diagnostics settlement we added the upfront payment of \$7.5m to a discounted value for the future payments, which we assume to be \$60m, the lesser of the choices. We now include a value of \$62.1m for the Wellstat Diagnostics asset (from the \$50.2m previously assumed value).

These changes were partially offset by the decrease in value of the AcelRx and VB assets, due to substantial downward fair value adjustments by the company, as well as lower net cash. The

number of shares outstanding also declined, improving the value per share. We will revise 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	\$212.2	\$216.3
VB	Royalty on Spine Implant	Undisclosed	\$4.4	\$4.0
University of Michigan	Royalty on Cerdelga	2022	\$17.5	\$10.6
Wellstat	Note (impaired)	Unknown	\$50.2	\$62.1
Hyperion	Note (impaired)	Unknown	\$1.2	\$1.2
LENSAR	Equity		N/A	\$64.4
AcelRx	Royalty on Zalviso	2027	\$0.0	\$0.0
CareView	Note (impaired)	2022	\$0.7	\$0.7
Noden	Equity	N/A	N/A	\$35.8
Kybella	Royalty	Unknown	\$0.2	\$0.4
Total				\$395
Net cash (Q220 including cash attached to assets held for sale) (\$m)				\$110.5
Total firm value (\$m)				\$506
Total basic shares (m)				114.0
Value per basic share (\$)				\$4.44
Total options (m)				0.0
Total number of shares (m)				114.0
Diluted value per share (\$)				\$4.44

Source: Edison Investment Research

Financials

Following Q2 results, we have increased our 2020 revenue estimate from \$11.7m to \$23.1m as quarterly LENSAR sales were not affected as heavily as expected by COVID-19. We are maintaining our 2021 estimate of \$32.6m. We have also substantially lowered our SG&A estimates by \$10.0m for 2020 and \$10.4m for 2021 due to company cost controls.

PDL reported gross cash of \$105.4m at the end of Q220, although importantly that does not include \$19.9m in cash associated with assets held for sale (hence reported gross cash would have been \$125.3m if the company was not going through the monetization process). During Q2, the company repurchased \$20.1m in stock. It currently has \$14.8m in debt (\$13.8m in principal due in December 2021 and \$1.0m in principal due in December 2024), which it is carrying at \$13.5m as there is a \$1.3m unamortized discount of the liability component. We continue to believe PDL has enough capital to execute on its business plans.

Exhibit 2: Financial summary

	\$000s	2018	2019	2020e	2021e
Year end 31 December		US GAAP	US GAAP	US GAAP	US GAAP
PROFIT & LOSS					
Revenue		32,028	30,706	23,098	32,550
Cost of Sales		(13,555)	(17,276)	(10,256)	(13,020)
Gross Profit		18,473	13,430	12,842	19,530
General & Administrative		(40,041)	(45,345)	(47,317)	(49,209)
EBITDA		(24,327)	(39,265)	(40,770)	(35,975)
Operating Profit (before amort. and except.)		(24,327)	(39,265)	(40,770)	(35,975)
Intangible Amortization		(1,294)	(1,290)	(1,307)	(1,307)
Other		0	0	0	0
Exceptionals		(8,569)	(10,768)	(22,313)	0
Operating Profit		(34,190)	(51,323)	(64,390)	(37,282)
Net Interest		(6,092)	(5,374)	(204)	(146)
Other		764	31,448	(14,403)	0
Profit Before Tax (norm)		(30,419)	(44,639)	(40,974)	(36,120)
Profit Before Tax (FRS 3)		(39,518)	(25,249)	(78,997)	(37,427)
Tax		6,753	1,021	15,550	0
Deferred tax		(0)	(0)	(0)	(0)
Profit After Tax (norm)		(23,666)	(43,618)	(25,424)	(36,120)
Profit After Tax (FRS 3)		(32,765)	(24,228)	(63,447)	(37,427)
Minority interest		0	280	645	0
Profit After Tax less Minority Interest (FRS 3)		(32,765)	(23,948)	(62,802)	(37,427)
Average Number of Shares Outstanding (m)		145.7	118.6	116.7	114.0
EPS - normalised (\$)		(0.16)	(0.44)	(0.22)	(0.32)
EPS - FRS 3 (\$)		(0.22)	(0.20)	(0.54)	(0.33)
Dividend per share (c)		0.00	0.00	0.00	0.00
Gross Margin (%)		57.7	43.7	55.6	60.0
EBITDA Margin (%)		-76.0	-127.9	-176.5	-110.5
Operating Margin (before GW and except.) (%)		-76.0	-127.9	-176.5	-110.5
BALANCE SHEET					
Fixed Assets		448,291	403,311	25,392	25,718
Intangible Assets		13,700	13,186	12,550	12,550
Tangible Assets		3,705	2,560	3,323	3,649
Royalty rights		0	0	0	0
Other		430,886	387,565	9,519	9,519
Current Assets		517,217	313,895	497,195	460,098
Stocks		0	0	0	0
Debtors		4,774	6,559	6,154	6,154
Cash		365,680	168,982	109,205	119,212
Other		146,763	138,354	381,836	334,731
Current Liabilities		(52,469)	(45,693)	(36,235)	(36,235)
Creditors		(2,529)	(2,675)	(3,524)	(3,524)
Short term borrowings		0	0	0	0
Other		(49,940)	(43,018)	(32,711)	(32,711)
Long Term Liabilities		(183,260)	(78,235)	(64,420)	(64,420)
Long term borrowings		(124,644)	(27,250)	(13,507)	(13,507)
Other long term liabilities		(58,616)	(50,985)	(50,913)	(50,913)
Net Assets		729,779	593,278	421,932	385,160
Minority Interests		0	0	0	0
Shareholder equity		729,779	593,278	421,932	385,160
CASH FLOW					
Operating Cash Flow		(13,425)	(32,444)	(50,834)	(37,427)
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(1,117)	(2,463)	(519)	(326)
Acquisitions/disposals		366	0	0	0
Financing		0	0	0	0
Dividends		(48)	0	0	0
Other		7,995	(63,917)	5,827	47,760
Net Cash Flow		(6,229)	(98,824)	(45,526)	10,007
Opening net debt/(cash)		(283,785)	(241,036)	(141,732)	(95,698)
HP finance leases initiated		0	0	0	0
Exchange rate movements		0	0	0	0
Other		(36,520)	(480)	(508)	(0)
Closing net debt/(cash)		(241,036)	(141,732)	(95,698)	(105,706)

Source: company reports, Edison Investment Research. Note that the company restated FY18 and FY19 in June to account for assets held for sale and discontinued operations.

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