

PDL BioPharma

Financial update

First quarter results

PDL's recent Q118 results reported that revenues of \$38.5m were down 15.2% compared to Q117 as the company transitioned away from royalties related to the Queen et al. patents to product revenue related to its Noden and LENSAR subsidiaries as well as royalties from the Depomed assets. Excluding Queen et al. royalties, revenues were up 14.2%. Also, while the revenues associated with the Tekturna assets sold by Noden continue to be weak, LENSAR is now EBITDA positive. PDL has also repurchased approximately \$12.6m of stock since March 2018 and has \$12.4m available under its current repurchase program.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
12/16	244.3	175.5	0.78	0.10	3.5	3.6
12/17	320.1	200.3	0.81	0.00	3.4	N/A
12/18e	156.6	47.6	0.28	0.00	9.9	N/A
12/19e	158.8	54.9	0.31	0.00	8.9	N/A

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

Noden yet to bottom out

The Noden franchise continues to be weak with net revenue of \$18.3m in Q118 (\$10.5m in the US and \$7.8m in the rest of the world), down 27.1% sequentially (up 46% year-on-year). This was partly due to an adjustment related to prior quarters and partly due to de-registering the product in geographies where it was unprofitable, which lowered revenue but improved margins.

LENSAR now EBITDA positive

The company announced that its LENSAR subsidiary was EBITDA positive for the quarter. Although there was a \$0.6m operating loss this was down from \$2.5m in the previous quarter as expenses related to LENSAR fell from \$10m in Q417 to \$5.6m.

\$25m share repurchase program implemented

Since March 2018, the company has repurchased 4.2m common shares for a total of \$12.6m and has \$12.4m remaining under its current repurchase program. With a book value (\$5.60 per share as of the end of Q118) that is much higher than the current stock price, share repurchases are strongly earnings accretive and the company has indicated that it may consider accelerating and/or expanding the share repurchases.

Valuation: \$846m or \$5.62 per share

We have adjusted our valuation to \$846m or \$5.62 per basic share from \$858m or \$5.58 per share. The lower total valuation was mainly due to lower Tekturna sales estimates as well as slightly lower net cash. This was mitigated in part by a higher value for LENSAR due to the better than expected expense control. The higher per share value was due to the implementation of the share repurchase program, which has resulted in a reduction in the number of shares outstanding.

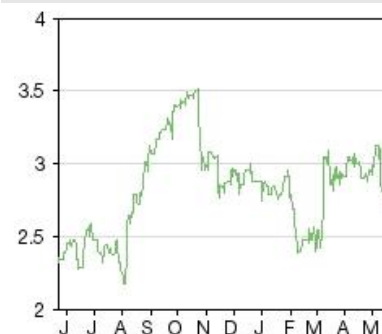
Pharma & biotech

22 May 2018

Price **US\$2.76**
Market cap **US\$416m**

Net cash (\$m) at 31 March 2018	285.9
Shares in issue	150.6m
Free float	92.6%
Code	PDLI
Primary exchange	NASDAQ
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(4.8)	8.2	18.5
Rel (local)	(7.0)	7.0	3.2
52-week high/low	US\$3.5	US\$2.2	

Business description

PDL BioPharma is reinventing itself as a healthcare-focused finance company through a three-pronged strategy: investing in royalty streams; providing high-yield financing to life science companies with near-term product launches; and purchasing approved drugs to be sold by Noden Pharma.

Next events

Acquire additional products for the Noden platform 2018

Analysts

Maxim Jacobs	+1 646 653 7027
Nathaniel Calloway	+1 646 653 7036
healthcare@edisongroup.com	
Edison profile page	

PDL BioPharma is a research client of Edison Investment Research Limited

Q118 results

PDL recently reported Q118 results and provided an update on its assets. For the quarter, revenues were down 15.2% to \$38.5m compared to Q117. That decline was entirely due to lower royalties related to the already expired Queen et al. patents which provided \$14.2m in revenues in Q117 but only \$2.8m in Q118. Not counting those royalties, revenues were up 14.2% compared to last year.

Noden revenues were \$18.3m (\$10.5m in the US and \$7.8m in the rest of the world), down 27.1% sequentially although up 46% year-on-year. Part of this was due to a jump in sales in Q417 thanks to a one-time adjustment related to the gross-to-net discount, compared to Q317 (which did not have the adjustment); Q118 US sales were only down 8.7%. Sales in the rest of the world were down as the product has been de-registered in geographies where it was unprofitable (such as France), which lowered revenue but improved margins. The company is continuing to work on improved patient targeting and reimbursement and has reported that it is making some headway on the latter as Medicare coverage improved to 69% in Q118 from 62% in 2017.

LENSAR, which was acquired in May 2017, saw Q118 revenues of \$5m down from \$7.5m in Q417 which had benefited from several large transactions in China. Importantly, expenses related to LENSAR fell from \$10m to \$5.6m compared to the previous quarter, which brought the company close to a positive margin and also helped it achieve a positive EBITDA.

Valuation

We have adjusted our valuation to \$846m or \$5.62 per basic share from \$858m or \$5.58 per share. The lower total valuation was mainly due to lower Tekturna sales estimates as well as slightly lower net cash. We have also removed the Avinger royalty from our valuation as it concluded per the credit and royalty agreement in April 2018. This was mitigated in part by a higher value for LENSAR due to better than expected expense control. The higher per share value was due to the implementation of the share repurchase program leading to fewer shares outstanding.

Exhibit 1: PDL valuation table				
Royalty/note	Type	Expiration year	PDL balance sheet carrying value (\$m)	NPV (\$m)
Queen et al	Royalty	2015	N/A	N/A
Depomed	Royalty on Glumetza and other products	2024	\$222.6	\$281.8
VB	Royalty on Spine Implant	Undisclosed	\$14.5	\$16.5
University of Michigan	Royalty on Cerdelga	2022	\$26.6	\$14.4
Wellstat	Note (Impaired)	Unknown	\$50.2	\$50.2
Hyperion	Note (Impaired)	Unknown	\$1.2	\$1.2
Lensar	Equity		N/A	\$53.1
Acelrx	Royalty on Zalviso	2027	\$75.1	\$75.2
Careview	Note	2022	\$19.4	\$20.5
Noden	Equity	N/A	N/A	\$46.4
Kybella	Royalty	Unknown	\$2.8	\$0.9
Total				\$560
Net cash (Q118) (\$m)				\$285.9
Total firm value (\$m)				\$846
Total basic shares (m)				150.6
Value per basic share (\$)				\$5.62
Total options (m)				1.1
Total number of shares (m)				151.7
Diluted value per share (\$)				\$5.58
Source: Edison Investment Research				

Financials

We have lowered our estimated FY18 revenues to \$156.6m from \$173.8m and our estimated FY19 revenues to \$158.8m from \$180.9m as we have decreased our revenue estimates for Noden and for LENSAR (although we have also lowered our expectations for LENSAR operating expenses due to better than expected expense control). We have increased our SG&A estimates to \$69.7m from \$65.9m for FY18 and to \$72.5m from \$68.5m for FY19 due to a higher than expected run rate. The company ended the quarter with \$405.1m in cash (\$285.9m net cash), which is lower than the \$527.3m balance last quarter as the company paid back the principal (\$126.4m) plus \$2.6m in accrued interest on its 2018 convertible notes in February.

Since March 2018, the company has repurchased 4.2m shares of common stock for a total of \$12.6m and has \$12.4m remaining under its current repurchase program. With a book value (\$5.60 per share as of the end of Q118) that is much higher than the current stock price, share repurchases are strongly earnings accretive and the company has indicated that it may consider accelerating and/or expanding the share repurchases.

Exhibit 2: Financial summary

	\$000s	2015	2016	2017	2018e	2019e
Year end 31 December		US GAAP	US GAAP	US GAAP	US GAAP	US GAAP
PROFIT & LOSS						
Revenue		590,448	244,301	320,060	156,645	158,772
Cost of Sales		0	(4,065)	(30,537)	(37,027)	(32,443)
Gross Profit		590,448	240,236	289,523	119,619	126,330
General & Administrative		(36,090)	(43,287)	(63,324)	(69,733)	(72,523)
EBITDA		550,379	193,129	218,818	46,666	50,587
Operating Profit (before amort. and except.)		550,379	193,129	218,818	46,666	50,587
Intangible Amortisation		0	(12,028)	(24,689)	(25,172)	(25,172)
Other		(3,979)	0	0	0	0
Exceptionals		0	(51,699)	(349)	600	0
Operating Profit		550,379	129,402	193,780	22,094	25,415
Net Interest		(26,691)	(17,679)	(18,562)	978	4,297
Other		6,450	(2,353)	9,309	0	0
Profit Before Tax (norm)		530,138	175,450	200,256	47,644	54,884
Profit Before Tax (FRS 3)		530,138	109,370	184,527	23,072	29,712
Tax		(197,343)	(45,711)	(73,826)	(5,314)	(6,239)
Deferred tax		(0)	(0)	(0)	(0)	(0)
Profit After Tax (norm)		332,795	129,739	126,430	42,330	48,644
Profit After Tax (FRS 3)		332,795	63,659	110,701	17,758	23,472
Minority interest		0	(53)	(47)	0	0
Profit After Tax less Minority Interest (FRS 3)		332,795	63,606	110,654	17,758	23,472
Average Number of Shares Outstanding (m)		163.4	163.8	155.4	152.0	155.0
EPS - normalised (\$)		2.04	0.78	0.81	0.28	0.31
EPS - FRS 3 (\$)		2.04	0.39	0.71	0.12	0.15
Dividend per share (c)		60.17	10.03	0.00	0.00	0.00
Gross Margin (%)		100.0	98.3	90.5	76.4	79.6
EBITDA Margin (%)		93.2	79.1	68.4	29.8	31.9
Operating Margin (before GW and except.) (%)		93.2	79.1	68.4	29.8	31.9
BALANCE SHEET						
Fixed Assets		733,468	818,949	611,827	544,953	449,057
Intangible Assets		0	228,542	215,823	194,307	194,307
Tangible Assets		31	1,631	16,369	11,287	13,524
Royalty rights		399,204	402,318	349,223	312,336	224,882
Other		334,233	186,458	30,412	27,023	16,345
Current Assets		279,731	395,147	631,296	574,243	689,596
Stocks		0	0	0	0	0
Debtors		0	40,120	31,183	22,646	22,646
Cash		218,883	147,154	527,266	482,389	597,742
Other		60,848	207,873	72,847	69,208	69,208
Current Liabilities		(36,662)	(130,315)	(193,109)	(50,963)	(50,963)
Creditors		(394)	(7,016)	(19,785)	(9,954)	(9,954)
Short term borrowings		(24,966)	0	(126,066)	0	0
Other		(11,302)	(123,299)	(47,258)	(41,009)	(41,009)
Long Term Liabilities		(283,485)	(329,649)	(204,124)	(210,764)	(210,764)
Long term borrowings		(232,835)	(232,443)	(117,415)	(123,601)	(123,601)
Other long term liabilities		(50,650)	(97,206)	(86,709)	(87,163)	(87,163)
Net Assets		693,052	754,132	845,890	857,470	876,927
Minority Interests		0	0	0	0	0
Shareholder equity		693,052	754,132	845,890	857,470	876,927
CASH FLOW						
Operating Cash Flow		301,465	101,718	40,624	1,023	9,699
Net Interest		0	0	0	0	0
Tax		0	0	0	0	0
Capex		(9)	(109,963)	(1,297)	(2,298)	(1,588)
Acquisitions/disposals		(71,593)	13,082	128,415	77,332	102,754
Financing		0	0	0	0	0
Dividends		(98,307)	(16,583)	(222)	0	0
Other		(8,046)	(47,629)	212,592	5,513	4,488
Net Cash Flow		123,510	(59,375)	380,112	81,570	115,353
Opening net debt/(cash)		160,347	38,918	85,289	(283,785)	(358,788)
HP finance leases initiated		0	0	0	0	0
Exchange rate movements		0	0	0	0	0
Other		(2,081)	13,004	(11,038)	(6,567)	(0)
Closing net debt/(cash)		38,918	85,289	(283,785)	(358,788)	(474,141)

Source: Company accounts, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by PDL BioPharma and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers" exclusion from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.