

PDL BioPharma

Financial update

Evofem shares distributed and Phexxi approved

PDL distributed its 26.7% Evofem stake to shareholders on 21 May 2020, just before the 22 May 2020 FDA approval for Evofem's hormone-free contraceptive gel, Phexxi (the PDUFA date was 25 May). The timing of the distribution allowed investors the ability to decide whether or not to hold through the PDUFA and also provided a liquidity event to sell shares, if desired. Additionally, there will be a virtual shareholder meeting on July 16, 2020 at which shareholders will vote on the dissolution plan for the company. Ultimately, PDL believes that shareholders will receive between \$3.00 and \$6.00 per share once assets (including Evofem) are fully monetized.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
12/18	198.1	78.8	0.45	0.0	7.4	N/A
12/19	54.8	(65.6)	(0.60)	0.0	N/A	N/A
12/20e	11.7	(58.3)	(0.37)	0.0	N/A	N/A
12/21e	32.6	(47.5)	(0.41)	0.0	N/A	N/A

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

LENSAR sales down 11% in Q120

The LENSAR femtosecond cataract laser business had product revenue of \$6.0m in Q120, down 11% compared to Q119 as March was weak due to the COVID-19 pandemic. Q2 will likely be especially difficult but with reopening starting later in the quarter, the company believes there is a potential to exit Q4 at pre-COVID-19 levels.

Phexxi approved

Evofem, a clinical-stage biopharmaceutical company, is developing Phexxi (previously Amphora), a hormone-free contraceptive gel that could address a very large market. According to the Centers for Disease Control and Prevention (CDC), 61.7% of the 60.9 million women aged 15–44 use contraception. Phexxi was approved on 22 May 2020 and is expected to launch in September.

Asset monetization proceeding

The asset monetization of the company's assets is proceeding with a virtual shareholder meeting to vote on the company dissolution plan scheduled for 16 July 2020. The estimated value of the assets (including Evofem) for distribution to investors is approximately \$350–700m (approximately \$3.00–6.00 per share).

Valuation: \$496m or \$4.26 per share

We have adjusted our valuation of PDL to \$496m or \$4.26 per basic share from \$689m or \$5.57 per share mainly due to the removal of Evofem from our valuation (as the shares have been distributed). Additionally, the company reported lower net cash due to the repurchase of convertible notes and stock, and also there was a reduction in our valuation for LENSAR. We will revise our model further as the company progresses through the monetization process.

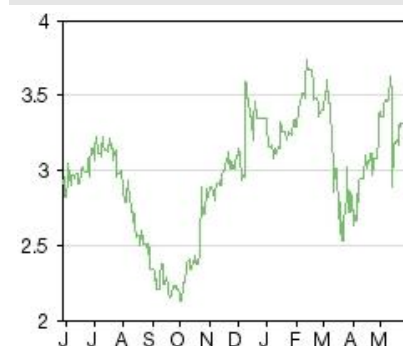
Pharma & biotech

27 May 2020

Price US\$3.33
Market cap US\$388m

Net cash (\$m) at 31 March 2020 (plus repurchases)	119.2
Shares in issue	116.5m
Free float	89.3%
Code	PDLI
Primary exchange	NASDAQ
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	32.4	20.3	37.8
Rel (local)	25.6	25.3	30.2
52-week high/low	US\$3.33	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

Shareholder meeting	July 2020
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Q1 results

PDL reported revenues of \$6.0m, which is down significantly from what was reported in prior quarters as the company has recategorized how it reports results. The vast majority of the company's assets (such as Noden and the royalty assets) are now classified as assets held for sale and are counted as discontinued operations. Reported revenues now consists almost entirely of the results for LENSAR. LENSAR sales were down 11% compared to last year as COVID-19 had a major impact on cataract surgeries starting in March. The company reported that elective surgeries such as cataract surgeries have come to an 'almost complete halt across the world'. Q2 will likely be especially difficult but with reopening starting later in the quarter, the company believes there is a potential to exit Q4 at pre-COVID-19 levels but that will of course depend on whether or not there is a second wave of COVID-19 cases and lockdowns later this year. Additionally, the pandemic will likely delay the disposition of the LENSAR asset, potentially into 2021, due to the uncertainty surrounding the business given the pandemic situation.

Revenues for the discontinued operations were \$24.4m for the quarter, so total revenues would have been \$30.4m without the reclassification. \$15.0m of the \$24.4m came from Noden, down 25% compared to the \$20.0m reported in Q119 due to generic competition in the US. The rest (\$9.4m) came from royalty rights, which was reduced by \$6m to reflect the expected cost of selling the royalty assets.¹

PDL reported a net loss of \$32.0m for Q120, which includes \$18.7m in severance and retention payments and a \$13.8m decrease in value of the Evofem asset due to a decrease in its stock price over the period.

Evofem distribution and approval

The company also distributed the 13.3m Evofem share equity stake (approximately 26.7% of the company) to shareholders on 21 May 2020 through a special one-time dividend. PDL investors received approximately 0.116 shares of Evofem for every share of PDL that is held. The company is not distributing the 3.3m warrants in Evofem and is continuing to pursue monetization of that asset. Importantly, on 22 May 2020, the FDA approved Evofem's hormone-free contraceptive gel, Phexxi (the PDUFA date was 25 May 2020). PDL has stated the timing of the distribution was meant to allow investors to make their own decision on whether to hold through the FDA decision and also provided for a liquidity event close to the date of distribution.

As a reminder, Evofem is developing its first product candidate, Phexxi, from its proprietary Multipurpose Vaginal pH Regulator platform. Phexxi is a bioadhesive vaginal gel that is a mix of L-lactic acid, citric acid and potassium bitartrate, which are all compounds generally regarded as safe by the FDA and frequently found in food. A normal vaginal pH is acidic at 3.5–4.5 and the gel works by maintaining acidity in the presence of semen, keeping the environment inhospitable to sperm motility. Unlike much of the competition, Phexxi is non-hormonal and accordingly does not appear to have the same long-term safety concerns compared to hormone-based contraceptives.

Valuation

We have adjusted our valuation of PDL to \$496m or \$4.26 per basic share from \$689m or \$5.57 per share mainly due to the removal of Evofem from our valuation (as the Evofem shares have been

¹ PDL indicates that the asset held for sale classification required it to record the anticipated cost to sell the asset as a deduction to its carrying value.

distributed). Additionally, the company reported lower net cash due to the repurchase of convertible notes and stock, and also there was a reduction in our valuation for LENSAR. 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	\$215.5	\$216.3
VB	Royalty on Spine Implant	Undisclosed	\$13.8	\$12.6
University of Michigan	Royalty on Cerdelga	2022	\$19.0	\$10.6
Wellstat	Note (impaired)	Unknown	\$50.2	\$50.2
Hyperion	Note (impaired)	Unknown	\$1.2	\$1.2
LENSAR	Equity		N/A	\$60.2
AcelRx	Royalty on Zalviso	2027	\$13.5	\$10.2
CareView	Note (impaired)	2022	\$0.7	\$0.7
Noden	Equity	N/A	\$9.7	\$14.5
Kybella	Royalty	Unknown	\$0.6	\$0.7
Total				\$377
Net cash (Q120 including cash attached to assets held for sale less cash used in share buyback) (\$m)				\$119.2
Total firm value (\$m)				\$496
Total basic shares (m)				116.5
Value per basic share (\$)				\$4.26
Total options (m)				0.0
Total number of shares (m)				116.6
Diluted value per share (\$)				\$4.26

Source: Edison Investment Research

Financials

We have made changes to our estimates to conform with the company's reclassification of most of its assets to assets held for sale and discontinued operations. Going forward our revenue estimates will consist of only LENSAR sales. Hence our 2020 revenue estimate is now \$11.7m, down from \$115.3m previously under the previous classification system. For 2021, our estimates have fallen from \$126.0m to \$32.6m. Note that our LENSAR estimate for 2020 assumes that revenues for the final three quarters of the year will be slightly less than the revenues of just the first quarter. However, we have kept our 2021 estimates for LENSAR roughly the same as before as the company expects a potential return to pre-COVID-19 levels by the end of the year. We have also kept our revenue estimates for the discontinued operations roughly the same for both 2020 and 2021.

PDL reported gross cash of \$125.5m at the end of Q120 though importantly that does not include \$21.3m in cash associated with assets held for sale (hence reported gross cash would have been \$146.8m without the reclassification). During Q1, the company repurchased \$19.2m in stock and \$18.8m in debt. Subsequent to the end of the quarter, the company repurchased an additional 4.1m shares for \$12.8m. The company 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 \$13.3m as there is a \$1.5m 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		198,110	54,757	11,681	32,550
Cost of Sales		(48,460)	(53,619)	(5,134)	(13,020)
Gross Profit		149,650	1,138	6,546	19,530
General & Administrative		(62,559)	(54,080)	(57,329)	(59,622)
EBITDA		84,136	(60,250)	(58,318)	(47,628)
Operating Profit (before amort. and except.)		84,136	(60,250)	(58,318)	(47,628)
Intangible Amortisation		(15,831)	(6,306)	(1,208)	(1,208)
Other		0	0	0	0
Exceptionals		(118,899)	(33,258)	(18,734)	0
Operating Profit		(50,594)	(99,814)	(78,260)	(48,836)
Net Interest		(5,328)	(5,374)	39	90
Other		0	31,448	(14,403)	0
Profit Before Tax (norm)		78,808	(65,624)	(58,279)	(47,538)
Profit Before Tax (FRS 3)		(55,922)	(73,740)	(92,624)	(48,746)
Tax		(12,937)	3,049	14,473	0
Deferred tax		(0)	(0)	(0)	(0)
Profit After Tax (norm)		65,871	(62,575)	(43,806)	(47,538)
Profit After Tax (FRS 3)		(68,859)	(70,691)	(78,151)	(48,746)
Minority interest		0	280	288	0
Profit After Tax less Minority Interest (FRS 3)		(68,859)	(70,411)	(77,863)	(48,746)
Average Number of Shares Outstanding (m)		145.7	118.6	118.1	116.5
EPS - normalised (\$)		0.45	(0.60)	(0.37)	(0.41)
EPS - FRS 3 (\$)		(0.47)	(0.59)	(0.66)	(0.42)
Dividend per share (c)		0.00	0.00	0.00	0.00
Gross Margin (%)		75.5	2.1	56.0	60.0
EBITDA Margin (%)		42.5	-110.0	-499.3	-146.3
Operating Margin (before GW and except.) (%)		42.5	-110.0	-499.3	-146.3
BALANCE SHEET					
Fixed Assets		446,519	402,224	37,893	38,219
Intangible Assets		51,319	23,298	12,884	12,884
Tangible Assets		7,387	5,520	3,543	3,869
Royalty rights		376,510	266,196	0	0
Other		11,303	107,210	21,466	21,466
Current Assets		517,217	313,895	545,299	504,108
Stocks		0	0	0	0
Debtors		21,648	13,552	7,865	7,865
Cash		394,590	193,451	119,555	124,760
Other		100,979	106,892	417,879	371,482
Current Liabilities		(52,470)	(45,693)	(41,742)	(41,742)
Creditors		(13,142)	(17,370)	(5,229)	(5,229)
Short term borrowings		0	0	0	0
Other		(39,328)	(28,323)	(36,513)	(36,513)
Long Term Liabilities		(181,487)	(77,148)	(64,946)	(64,946)
Long term borrowings		(124,644)	(27,250)	(13,302)	(13,302)
Other long term liabilities		(56,843)	(49,898)	(51,644)	(51,644)
Net Assets		729,779	593,278	476,504	435,638
Minority Interests		0	0	0	0
Shareholder equity		729,779	593,278	476,504	435,638
CASH FLOW					
Operating Cash Flow		(13,425)	(32,443)	(65,403)	(48,746)
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(4,523)	(2,463)	(372)	(326)
Acquisitions/disposals		57,969	79,272	0	0
Financing		0	0	0	0
Dividends		(48)	0	0	0
Other		(46,202)	(143,190)	32,030	54,276
Net Cash Flow		(6,229)	(98,824)	(33,745)	5,205
Opening net debt/(cash)		(283,785)	(269,946)	(166,201)	(106,254)
HP finance leases initiated		0	0	0	0
Exchange rate movements		0	0	0	0
Other		(7,610)	(4,921)	(26,202)	0
Closing net debt/(cash)		(269,946)	(166,201)	(106,254)	(111,458)

Source: company accounts, Edison Investment Research

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