

# PDL BioPharma

Financial update

## Q119 results

PDL BioPharma reported Q119 revenues of \$38.9, up 1.0% compared to Q118. Going forward, the company indicated that it would be working intensely to maximize its investment in Evofem, a women's health company that is preparing to submit an NDA for Amphora, a non-hormonal female contraceptive, in Q419 with a launch expected in H120. The company also announced that it has bought back \$80.3m worth of its shares since the beginning of the \$100m stock repurchase program announced last September.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
12/17	320.1	200.3	0.81	0.00	3.9	N/A
12/18	198.1	78.8	0.45	0.00	7.0	N/A
12/19e	123.5	34.7	0.21	0.00	15.0	N/A
12/20e	125.7	37.5	0.24	0.00	13.1	N/A

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

## Investing in Evofem

PDL announced in April that it had entered into a securities purchase agreement with Evofem, a Nasdaq-listed women's health company that is developing a non-hormonal contraceptive product. PDL will invest up to \$60m in two tranches of \$30m each, the first of which is already invested and the second expected to be invested by 10 June 2019 at the company's discretion. Assuming the investment of both tranches, PDL will own approximately 29% of Evofem and will also have a board seat to help actively manage its investment and provide assistance/expertise.

## Evofem targeting 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. Almost half of those use either short- or long-acting hormonal oral contraceptive pills or devices such as a ring or a patch. According to EvaluatePharma, \$6.5bn worth of hormonal contraceptives were sold in 2018.

## Tekturna generic launched in the US

The company announced that a generic version of Tekturna was recently launched by Anchen Pharmaceuticals, which is currently competing with the branded version of the product and the authorized generic that was launched by Prasco Laboratories in March. With this in mind, the company plans to terminate all promotional efforts in H219.

## Valuation: \$789m or \$6.54 per share

We have adjusted our valuation from \$816m or \$6.37 per basic share to \$789m or \$6.54 per share. The decrease in value is mainly due to a lower net cash level, while the higher per-share value is due to the lower number of shares outstanding as a result of the share repurchase program.

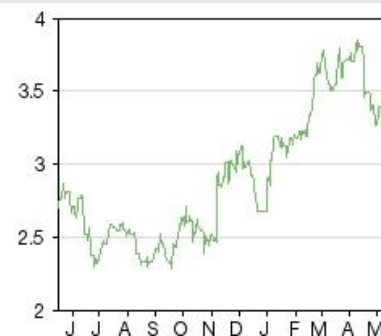
## Pharma & biotech

15 May 2019

**Price** **US\$3.14**
**Market cap** **US\$379m**

Net cash (\$m) at 31 March 2019	216.3
Shares in issue	120.7m
Free float	90.6%
Code	PDLI
Primary exchange	NASDAQ
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(17.4)	(2.8)	12.5
Rel (local)	(15.2)	(5.8)	8.4
52-week high/low	US\$3.85	US\$2.28	

## Business description

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

## Next events

China Rasilez launch	Q219
Evofem NDA filing	Q419

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## Earnings update

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PDL reported Q119 revenues of \$38.9m, up 1.0% compared to Q118 and down 13.8% sequentially, partially due to chargeback payments associated with the Assertio royalties. Noden net revenue was \$20m in the quarter, up 9.2% compared to Q118 and up 6.4% sequentially. The strength is mainly due to the US business as it also includes some stocking of the authorized generic (\$2.8m out of the \$12.2m in US sales was stocking at partner Prasco Laboratories). In total, \$5.4m (44%) of US Tekturna sales were associated with the authorized generic. With both the generic from Anchen and authorized generic competing with branded Tekturna, the company has decided to eliminate all promotional activities associated with the product in the second half of this year to help maintain profitability (Noden generated \$5.6m in profits in the quarter). 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 imminently. 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 \$6.7m in Q418, up 35.0% compared to last year. However, profitability deteriorated slightly with a quarterly loss of \$1.2m compared to a \$0.6m loss in the same quarter last year.

## Evoform

As a reminder, PDL recently announced that it had entered into a securities purchase agreement with Evoform, a Nasdaq-listed women's health company that is developing a non-hormonal contraceptive product. PDL will invest up to \$60m in two tranches of \$30m each, with the first being invested in April and the second by 10 June 2019. Both tranches will have the same terms, a purchase price of \$4.50 per share (a 26% premium to Evoform's closing price on the day before the investment was announced, although approximately a 30% discount to the company's current stock price) for 6,666,667 shares, with 1,666,667 warrants and an exercise price of \$6.38 per share. Additionally, Woodford, which owns 9.6m shares (~34% of the company pre-PDL deal) of the company, and Invesco, which owns 9.2m shares (~33% of the company pre-PDL deal), have an opportunity to invest up to \$10m each on the same terms as PDL (according to the agreement, if either declines to invest, the other partners, including PDL, could invest the non-participating investor's portion at the same terms). Following the investment of the first tranche, PDL owns approximately 19% of the company and will own 29% of Evoform, assuming it, Woodford and Invesco all exercise their rights to invest in the second tranche. PDL will receive a board seat so that it can actively manage and assist Evoform, with regards to both business development and commercialization.

The company had previously indicated that it was looking at pre-commercial opportunities, with which this fits in well. The structure is especially appealing as it does provide the promise of substantial returns, but with the downside capped at either \$30m or \$60m if Evoform does not live up to expectations. However, PDL indicated that future deals may have different structures based on what is optimal in that instance.

## Valuation

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We have adjusted our valuation from \$816m or \$6.37 per basic share to \$789m or \$6.54 per share. The decrease in value is mainly due to a lower net cash level, while the per-share value has increased as the company is in the middle of a \$100m share repurchase program, which was

announced last September, and has so far deployed \$80m of that to buy back 24.5m shares (it now has 8.1m fewer shares than at the time of the Q418 earnings release). We have also increased the Lensar NPV by \$5.4m due to a slightly higher revenue run rate. Additionally, we have lowered Noden's value by \$4.2m due to advancing the NPV and as the cash flows of the business post-generic competition will be much lower.

<b>Exhibit 1: PDL valuation table</b>					
<b>Royalty/note</b>	<b>Type</b>	<b>Expiration year</b>	<b>PDL balance sheet carrying value (\$m)</b>	<b>NPV (\$m)</b>	
Assertio (formerly Depomed)	Royalty on Glumetza and other products	2024	\$263.8	\$271.1	
VB	Royalty on Spine Implant	Undisclosed	\$14.2	\$14.7	
University of Michigan	Royalty on Cerdelga	2022	\$25.1	\$12.8	
Wellstat	Note (Impaired)	Unknown	\$50.2	\$50.2	
Hyperion	Note (Impaired)	Unknown	\$1.2	\$1.2	
Lensar	Equity		N/A	\$61.6	
AcelRx	Royalty on Zalviso	2027	\$72.5	\$73.7	
Careview	Note (Impaired)	2022	\$11.5	\$11.5	
Noden	Equity	N/A	\$36.4	\$15.7	
Kybella	Royalty	Unknown	\$0.6	\$0.7	
Evoferm	Equity	N/A	N/A	\$89.0	
<b>Total</b>				<b>\$602</b>	
Net cash (Q119 less Evoferm investment) (\$m)				\$186.3	
<b>Total firm value (\$m)</b>				<b>\$789</b>	
Total basic shares (m)				120.7	
<b>Value per basic share (\$)</b>				<b>\$6.54</b>	
Total options				0.8	
Total number of shares				121.4	
Diluted value per share (\$)				\$6.49	
Source: Edison Investment Research					

## Financials

We have made minor adjustments to our revenue estimates, increasing them by \$1.0m in FY19 and \$1.2m in FY20 mainly due to slightly higher Lensar expectations. We have also increased our SG&A estimates from \$35.2m to \$49.7m for FY19 and from \$36.6m to \$51.6m for FY20 as SG&A spending has rebounded from Q418 and we are assuming a higher run rate going forward. The company ended the quarter with \$366.3m in cash (\$216.3m in net cash). Taking into account the \$30m invested in Evoferm, the net cash level is \$186.3m.

**Exhibit 2: 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	123,545	125,697
Cost of Sales		(30,537)	(48,460)	(31,629)	(29,814)
Gross Profit		289,523	149,650	91,917	95,883
General & Administrative		(63,324)	(62,559)	(49,655)	(51,641)
EBITDA		218,818	84,136	39,047	41,027
Operating Profit (before amort. and except.)		218,818	84,136	39,047	41,027
Intangible Amortisation		(24,689)	(15,831)	(6,288)	(6,288)
Other		0	0	0	0
Exceptionals		(349)	(118,899)	0	0
Operating Profit		193,780	(50,594)	32,759	34,739
Net Interest		(18,562)	(5,328)	(4,324)	(3,574)
Other		9,309	0	0	0
Profit Before Tax (norm)		200,256	78,808	34,723	37,452
Profit Before Tax (FRS 3)		184,527	(55,922)	28,435	31,164
Tax		(73,826)	(12,937)	(8,486)	(6,545)
Deferred tax		(0)	(0)	(0)	(0)
Profit After Tax (norm)		126,430	65,871	26,237	30,908
Profit After Tax (FRS 3)		110,701	(68,859)	19,949	24,620
Minority interest		(47)	0	0	0
Profit After Tax less Minority Interest (FRS 3)		110,654	(68,859)	19,949	24,620
Average Number of Shares Outstanding (m)		155.4	145.7	123.6	128.5
EPS - normalised (\$)		0.81	0.45	0.21	0.24
EPS - FRS 3 (\$)		0.71	(0.47)	0.16	0.19
Dividend per share (c)		0.00	0.00	0.00	0.00
Gross Margin (%)		90.5	75.5	74.4	76.3
EBITDA Margin (%)		68.4	42.5	31.6	32.6
Operating Margin (before GW and except.) (%)		68.4	42.5	31.6	32.6
<b>BALANCE SHEET</b>					
Fixed Assets		602,680	446,519	374,177	324,271
Intangible Assets		215,823	51,319	49,746	49,746
Tangible Assets		7,222	7,387	7,236	8,493
Royalty rights		349,223	376,510	274,211	223,048
Other		30,412	11,303	42,984	42,984
Current Assets		640,443	517,217	517,022	614,721
Stocks		0	0	0	0
Debtors		31,183	21,648	15,739	15,739
Cash		527,266	394,590	405,800	503,499
Other		81,994	100,979	95,483	95,483
Current Liabilities		(193,109)	(52,470)	(43,318)	(43,297)
Creditors		(19,785)	(13,142)	(12,430)	(12,430)
Short term borrowings		(126,066)	0	0	0
Other		(47,258)	(39,328)	(30,888)	(30,867)
Long Term Liabilities		(204,124)	(181,487)	(186,431)	(186,431)
Long term borrowings		(117,415)	(124,644)	(126,567)	(126,567)
Other long term liabilities		(86,709)	(56,843)	(59,864)	(59,864)
Net Assets		845,890	729,779	661,450	709,264
Minority Interests		0	0	0	0
Shareholder equity		845,890	729,779	661,450	709,264
<b>CASH FLOW</b>					
Operating Cash Flow		40,624	(13,425)	(2,363)	(3,370)
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(1,297)	(4,523)	(168)	(1,257)
Acquisitions/disposals		128,415	57,969	89,100	102,325
Financing		0	0	0	0
Dividends		(222)	(48)	0	0
Other		212,592	(46,202)	(75,359)	0
Net Cash Flow		380,112	(6,229)	11,210	97,699
Opening net debt/(cash)		85,289	(283,785)	(269,946)	(279,233)
HP finance leases initiated		0	0	0	0
Exchange rate movements		0	0	0	0
Other		(11,038)	(7,610)	(1,923)	(0)
Closing net debt/(cash)		(283,785)	(269,946)	(279,233)	(376,932)

Source: Edison Investment Research, PDL BioPharma reports

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