SEVENSAOI CAPITAL, LLC
1165 North Clark Street, 4th Floor
Chicago, Illinois 60610

September 20, 2018

BY ELECTRONIC MAIL

Board of Directors
PDL BioPharma, Inc.
932 Southwood Boulevard
Incline Village, Nevada 89451

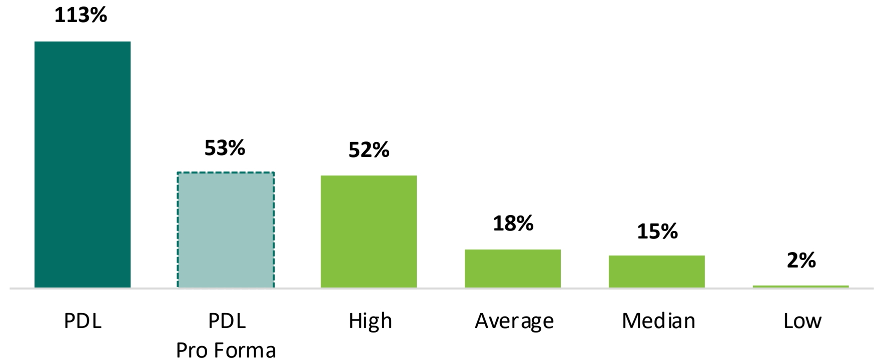
Ladies and Gentlemen:

As you may recall, our firm, SevenSaoi Capital, LLC (together with its affiliates, "SevenSaoi," pronounced "7C"), is a significant shareholder of PDL BioPharma, Inc. (the "Company" or "PDL"). We previously sent a letter to PDL's Board of Directors (the "Board") on April 9, 2018(1) to provide you with a detailed analysis of what we believe to be the causes of PDL's underperformance and undervaluation. This analysis was the result of months of research and communication with the Board, management, other shareholders, and the investment and research community, which has continued to this day. In light of false or misleading comments made by PDL's CEO John McLaughlin in recent months, we write to you today to express our concern with the risks of persistent capital misallocation under PDL's "spec pharma roll-up" strategy, which other stakeholders have communicated to us that they share. Concomitantly, we strongly advise that PDL initiate a large share repurchase.

As we have previously demonstrated, PDL is grossly overcapitalized — the Company currently has $375M in cash,(2) an additional $400M+ in expected royalty cash flow through 2022, and low working capital requirements. As a percent of market capitalization, PDL's cash balance is currently 7.6x that of its median peer and 2.2x that of the most overcapitalized peer.(3) Given that the fair value of PDL's assets trade at approximately a 75% discount to PDL's current enterprise value,(4) the case for a large share repurchase is incredibly compelling.(5) If the Board has any confidence in the fair value of PDL's assets, which are certified by management on a quarterly basis, it is imperative that the Board consider initiating

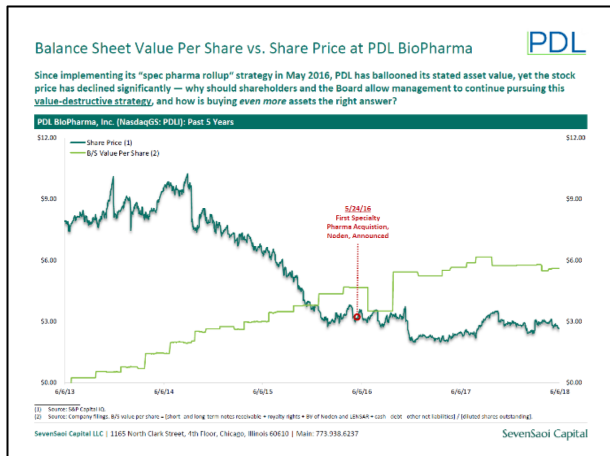
(1) SevenSaoi's letter: https://mma.prnewswire.com/media/664524/SevenSaoi_Capital_Board_Letter.pdf.
(2) Source: PDL Quarterly Report on Form 10-Q for the quarter ended June 30, 2018. Reflects subsequent events, including PDL's $20M Depomed reversionary interest purchase and $1.4M in share repurchases.
(3) Source: PDL Definitive Proxy Statement on Schedule 14A dated April 26, 2018. Peers include Acorda Therapeutics (ACOR), Akorn (AKRX), AMAG Pharma (AMAG), ANI Pharma (ANIP), Assertio Therapeutics (formerly Depomed) (ASRT), Eagle Pharma (EGRX), Emergent BioSolutions (EBS), Genomic Health (GHDX), Horizon Pharma (HZNP), Insys Therapeutics (INSY), Lannett (LCI), MiMedx Group (MDXG), Momenta Pharma (MNTA), Myriad Genetics (MYGN), Pacira Pharma (PCRX), Prestige Brands Holdings (PBH), The Medicines Co. (MDCO) and Vanda Pharma (VNDA). Excludes recently-acquired peer Impax Laboratories (IPXL) and private peers Aegerion Pharma and Sucampo Pharma.
(4) Source: PDL Quarterly Report on Form 10-Q for the quarter ended June 30, 2018. As of September 19, 2018.
(5) Each of the two share repurchases authorized and executed since 2017, totaling $55M, amounted to a nearly immaterial amount of PDL's cash balance.

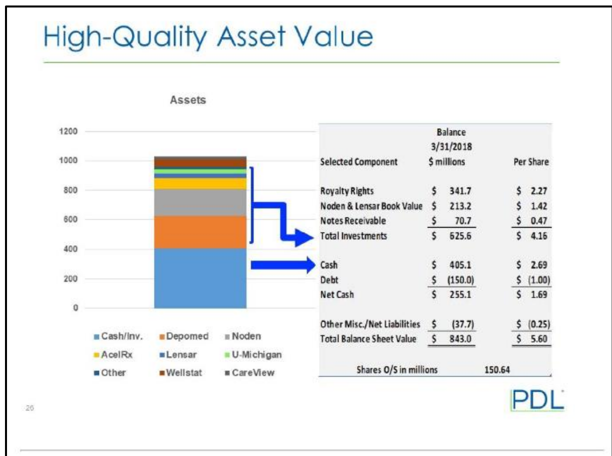
a large share repurchase. Pro forma for even as much as $200M in share repurchases, PDL would still have the highest market capitalization-adjusted cash balance among its peers (see below).



We have discussed this matter at length with you, Mr. McLaughlin, and other members of management, and we reiterate the conviction held by SevenSaoi and, as communicated to us, numerous other shareholders that further support the rationale for a large share repurchase: **PDL's share price discount persists in large part due to investor concern that PDL's massive cash balance will be deployed in expensive acquisitions that destroy shareholder value**.

In recent months, Mr. McLaughlin has correctly described the significant disconnect between PDL's share price and its balance sheet value per share.[(6)] Mr. McLaughlin has also stated that reducing this disconnect is the Company's highest priority for 2018. We share this goal and believe that the Board and management must be judged by the degree to which they accomplish it. In fact, we illustrated the disconnect to the Board and shareholders in attendance at the 2018 Annual Meeting on June 8, 2018 with the slides on the following page; these slides also noted how the disconnect has grown worse over the two years PDL has been pursuing its "spec pharma roll-up" strategy.





Selected Component	Balance 3/31/2018 $ millions	Per Share
Royalty Rights	$ 341.7	$ 2.27
Noden & Lensar Book Value	$ 213.2	$ 1.42
Notes Receivable	$ 70.7	$ 0.47
Total Investments	$ 625.6	$ 4.16
Cash	$ 405.1	$ 2.69
Debt	$ (150.0)	$ (1.00)
Net Cash	$ 255.1	$ 1.69
Other Misc./Net Liabilities	$ (37.7)	$ (0.25)
Total Balance Sheet Value	$ 843.0	$ 5.60
Shares O/S in millions	150.64	

(6) As calculated by PDL, balance sheet value per share = [short- and long-term notes receivable + royalty rights + BV of Noden and LENSAR + cash - debt - other net liabilities] / [diluted shares outstanding].

This is where Mr. McLaughlin's comments diverge from the realities of the recent past: Mr. McLaughlin has claimed repeatedly that the reason for the value disconnect is PDL's lack of completed acquisitions. We, and other shareholders and close followers of PDL that have communicated with us, believe this is false and are extremely concerned that the Board will be spurred into taking value-destructive action based on this flawed premise.

We applied analytical rigor to Mr. McLaughlin's comments in a private letter to the Board on June 22, 2018, reiterate these points below, and provide them to our fellow shareholders in the hope that the Board will avoid repeating mistakes that PDL has made in the past. Simply put, Mr. McLaughlin's acquisition prowess can be aptly summarized by his poor track record over the past ten years at PDL:

(1) Noden has proven tremendously dilutive. In 2017, Noden produced a $5.8M net loss and only $18M in cash flow.[(7)] On a cash flow multiple basis, this implies PDL paid approximately 11x for Noden at a time when the Company's multiple of EBITDA (a common proxy for cash flow) was only 1x — a break from the simplest of principles governing acquisitions. The imprudence of the Noden acquisition is further exacerbated by its near-term patent expiration and, as recently disclosed, potential generic competition beginning March 2019. Still, Mr. McLaughlin has repeatedly called this acquisition "accretive," paying no regard to the price paid for Noden. CFO Pete Garcia was forthcoming in clarifying PDL's definition of "accretive" at the 2018 Annual Meeting: Noden has indeed produced greater than $0 in cash flow. We tend to agree with the two analysts covering PDL, who stated the following to us: Analyst #1: *"… it could be cash flow accretive but value destructive… Management teams need to be reminded that ROIC is an important metric,"* and Analyst #2: *"Whenever companies use the word 'accretive' I assume they are not doing the math right..."* and regarding PDL specifically, *"[Noden] diluted the total value of the Company."* The fact that PDL wrote down its investment in Noden by over three-quarters of its value just this past quarter ($152M) illustrates that this acquisition was severely value-dilutive to shareholders.

(2) The attempted hostile takeover of Neos Therapeutics, Inc. (NasdaqGM: NEOS) was disastrous. After two bids were privately rejected by NEOS's Board of Directors, PDL publicly announced a hostile takeover bid at a 40% premium, sending PDL's share price plummeting over 16% from its unaffected price (a nearly $90M loss of value). Despite our immediate overtures to Mr. McLaughlin to drop the bid, it wasn't until February 20, 2018, nearly four months and approximately $160M in lost shareholder value later, that PDL made a formal announcement ending its pursuit of NEOS. In the three quarters since PDL's bid, NEOS has repeatedly missed Wall Street consensus estimates, replaced its CEO, and produced $44M in net losses. NEOS's market capitalization is now approximately $142M below PDL's final offer.

(3) Before PDL's "spec pharma roll-up" strategy, Mr. McLaughlin presided over a debt and royalty investment strategy, the results of which he publicly obfuscates. Specifically, PDL reports a 15.9% IRR on deployed capital among "closed" investments; this figure, however, notably excludes substantially-realized "active" investments, including (a) Direct Flow Medical, a $50M investment that defaulted and forced an approximate 80% write-down before only $8M was monetized, and (b) LENSAR, which PDL labels an "equity investment" but which was actually equity created in a bankruptcy after PDL's debt investment in LENSAR produced little-to-no cash return and subsequently defaulted. When fairly burdened for these two transactions, the IRR of closed/substantially-realized debt and royalty investments is, in fact, less than 10% — clearly an insufficient return for the risks involved.

[(7)] Adds reported non-cash/non-operating items attributable to Noden (i.e., amortization of intangibles) to Noden's reported net income.

Another perplexing statement made by Mr. McLaughlin occurred at the 2018 Annual Meeting where he stated that investment bankers and Wall Street research analysts have told him PDL needs to do a deal. Investment bankers, who are generally primarily compensated via "success fees" for advising on transactions (i.e., acquisitions) that are completed, are undoubtedly conflicted, do not owe a fiduciary duty to the Company's shareholders, and do not necessarily have the best interests of PDL or its shareholders in mind. As for Wall Street research analysts, we investigated Mr. McLaughlin's claim by interviewing the two analysts who actively cover PDL. Regarding acquisitions, they said the following:

Analyst #1: *"I'd be skeptical of how a deal would be perceived… two-thirds of deals in biotech are value-destroying…"*

Analyst #2 was less optimistic, saying, *"A lot of [acquisitions] blow up in two years, a lot of them just don't make much money… I don't think they need to do a deal."*

Analyst #1 also went further, saying the following regarding PDL's "spec pharma roll-up" strategy and its heavily discounted shares: *"I think the most important thing that PDL could do to communicate its value to the Street is to provide some idea of the long-term potential of its businesses. For example, what level of revenue could Tekturna generate, and what operating margin can PDL recognize on that business? What is Lensar's revenue opportunity? The Company has never done this. Investors have come to their own conclusions, but if PDL wants to be afforded more value, it needs to convince investors they are too low in their assumptions."*

Mr. McLaughlin has unfortunately continued to make public comments advocating for acquisitions, the last of which occurred at H.C. Wainwright & Co.'s 20th Annual Global Investment Conference on September 6, 2018 — within the first 60 seconds of PDL's presentation: *"We're actively looking for additional products or companies we could acquire."*

The Board should be reminded that management's insistence on making acquisitions is unfortunately and inextricably linked with management's pecuniary interests; as we described in great detail in our April 9, 2018 letter, management's, and especially Mr. McLaughlin's, poorly-devised compensation scheme includes massive incentives for them to make acquisitions, to the exclusion of other productive and value-enhancing uses of capital, such as share repurchases.

In addition to initiating a large share repurchase, and given the poor acquisition track record and shareholder misalignment described above, we consider it critical that the Board and management answer the following questions regarding PDL's strategy — Why are commercial (or Phase 3) products and companies attractive, particularly given that competition for these assets often comes from companies with some of the lowest costs of capital in the world? What real operating benefits or "synergies" does PDL, as currently constituted, bring to acquisitions? Will making the best acquisition available in PDL's pipeline deliver a better risk-adjusted return than acquiring PDL's own deeply undervalued shares? **Until these questions have been answered publicly and with factual and measurable evidence, we and like-minded shareholders will consider any material acquisition made by PDL to be highly risky and likely to destroy value.**

We wanted to bring these matters to the Board's attention because we consider them vital to the future of PDL. As a significant shareholder, we very much share the Company's desire to increase the stock price to better reflect the fair value of its assets, and we believe that doing acquisitions practically for their own sake, or merely because they may be "accretive" by the PDL's misleading definition, will very likely have results contrary to that desire. Such actions are instead far more likely to worsen the valuation disconnect, and correcting this must remain the Company's top priority. We are hopeful that Mr. McLaughlin's

comments, which we believe have little-to-no basis in reality and only serve to create confusion and mistrust in the market, will not lead the Board to repeat past mistakes for which we and other shareholders have suffered.

At the next Board meeting, we implore you to consider alternative means to create shareholder value, including, but not limited to, a large repurchase of PDL's own very undervalued shares.

We look forward to continuing to work with the Board to maximize value for all shareholders and would be pleased to discuss any of the foregoing matters at your convenience.

Sincerely,

Michael P. Cole
Founder and Chief Executive Officer
SevenSaoi Capital, LLC