

Ligand Pharmaceuticals, Inc.

(LGND - NASDAQ)

LGND: Pelthos To Become Public Company

We use a blended 20.0x multiple of 2025 earnings and 16.0x multiple of 2025 EBITDA to generate our Ligand Pharmaceuticals core valuation. To this, we add investment value for Primrose equity, Palvella preferred stock and other investments along with cash, cash equivalents and Pelthos to produce our target price.

Current Price (4/22/2025) **\$106.47**
Valuation \$141.00

OUTLOOK

Ligand Pharmaceuticals holds a portfolio of revenue, royalty & milestone generating assets that have been vetted by its internal investment team. Ligand considers individual biopharmaceutical products, platforms, companies & income streams in its opportunity set. It targets late-stage and commercial income-producing assets when making investments. The company holds a diversified portfolio of biopharmaceutical royalties, a solubilizing and stability agent, as well as equity interests and ownership in other companies including Primrose, Palvella, Viking and Pelthos.

The royalty portfolio consists of 12 major commercial stage assets & >90 active programs. In addition to its identified programs, Ligand plans to deploy ~\$200 million per year acquiring new assets which can largely be funded with free cash flow.

The company's experienced investment team takes an internal look under a confidentiality agreement at a prospects' data, allowing for superior risk adjusted returns. In addition to its major commercial assets, Ligand's portfolio of development-stage programs, along with future acquisitions funded by internally generated capital can fuel long-term revenue growth and generate superior risk-adjusted returns.

SUMMARY DATA

52-Week High **129.90**
 52-Week Low **69.17**
 One-Year Return (%) **55.4**
 Beta **1.0**
 Average Daily Volume (sh) **113,155**

Shares Outstanding (mil) **19.3**
 Market Capitalization (\$mil) **2,054**
 Short Interest Ratio (days) **7.4**
 Institutional Ownership (%) **98**
 Insider Ownership (%) **2.1**

Annual Cash Dividend **\$0.00**
 Dividend Yield (%) **0.00**

5-Yr. Historical Growth Rates
 Sales (%) **6.8**
 Earnings Per Share (%) **13.2**
 Dividend (%) **N/A**

P/E using TTM EPS **18.5**
 P/E using 2024 Estimate **18.5**
 P/E using 2025 Estimate **17.3**

Zacks Rank **N/A**

Risk Level **Above Average**
 Type of Stock **Small-Growth**
 Industry **Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue

(In millions of USD)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2023	\$44.0 A	\$26.4 A	\$32.9 A	\$28.1 A	\$131.3 A
2024	\$31.0 A	\$41.5 A	\$51.8 A	\$42.8 A	\$167.1 A
2025					\$191.1 E
2026					\$215.6 E

Earnings per Share

	Q1	Q2	Q3	Q4	Year
2023	\$1.33 A	\$2.61 A	\$1.02 A	\$1.05 A	\$4.06 A
2024	\$1.20 A	\$1.40 A	\$1.84 A	\$1.27 A	\$5.74 A
2025					\$6.14 E
2026					\$6.60 E

WHAT'S NEW

Ligand Pharmaceuticals, Inc. (NASDAQ: LGND) announced that it had identified a suitor to take its subsidiary Pelthos Therapeutics public in an April 17th [press release](#). Ligand's subsidiary will combine with the public company Channel Therapeutics (NYSE: CHRO) which is a clinical stage life sciences company developing pain therapeutics. Alongside the merger agreement, there will be a \$50.1 million private investment in public equity (PIPE) that is set to close just prior to the consummation of the merger. It will include an \$18 million contribution from Ligand and \$32 million from other investors.

Readers may recall that Pelthos offers Zelsuvmi, an FDA approved treatment for molluscum contagiosum. Since the acquisition of Novan by Ligand in 2023, Zelsuvmi has received FDA approval, Pelthos was created and CEO was appointed to the company. In the last few quarters, Pelthos has been building inventory and preparing for commercial launch. Now that the pathway to being public has been clarified, Pelthos is interacting with the SEC to determine how the combination will be classified and taking further steps to build its commercialization team. The transaction is expected to close during the summer of 2025.

For the purposes of allocating ownership, Pelthos is valued at \$67 million and Channel at \$15 million prior to additional investment. Just prior to the proposed transaction, a \$50 million investment is planned. Upon completion of the transaction, Mr. Plesha will become CEO of the combined company and Mr. Knuettel (now CEO of Channel) will become CFO. The Board of Directors will consist of Mr. Plesha, two independent directors, Peter Greenleaf and Matt Pauls, two board members appointed by Ligand, and an additional two independent directors who are reasonably acceptable to Murchinson, both of whom are current Channel board members.

Channel Therapeutics

Channel Therapeutics (CHRO) is a clinical stage research and development company with a pipeline focused on non-opioid pain treatment. Its active candidates include CC8464, CT2000 and CT3000 which all modulate NaV1.7 receptors responsible for sensing and transmitting pain in the peripheral nervous system. CC8464 is an orally administered agent for neuropathic pain, while CT2000 is a topically administered treatment for acute and chronic eye pain whereas CT3000 is a depot formulation for post operative nerve blocks. CT2000 was slated to begin a Phase II study in 2025 while the other two assets were involved in preclinical work this year. While these assets have shown promising data so far and are being retained by Pelthos post-merger, we believe it is likely that the company's future focus will be to commercialize Zelsuvmi. In our conversations with management, Pelthos could be ready to launch Zelsuvmi by mid-year 2025. Embedded in the [Form 8-K](#) is a presentation that forecasts operational cash flow breakeven in 2027.

Pelthos Therapeutics Background

In May 2019, Ligand entered into a development funding and royalty agreement with Novan, Inc. where Ligand provided \$12 million in funding in return for milestones and royalty payments. Novan was developing SB-206 (berdazimer gel), now branded Zelsuvmi to treat molluscum contagiosum (MC), a common skin infection in children. Due to a difficult funding environment, Novan was forced to declare bankruptcy in mid-2023 despite the FDA having accepted a new drug application (NDA) on behalf of Novan's lead candidate. Ligand [elected](#) to provide debtor in possession financing and make a bid for the assets out of bankruptcy, paying \$12.2 million for the as yet unapproved candidate. In return for the payment, Ligand gained ownership of the product along with Novan's Nitricil platform and related assets. Zelsuvmi was later [approved](#) by the FDA in January 2024.

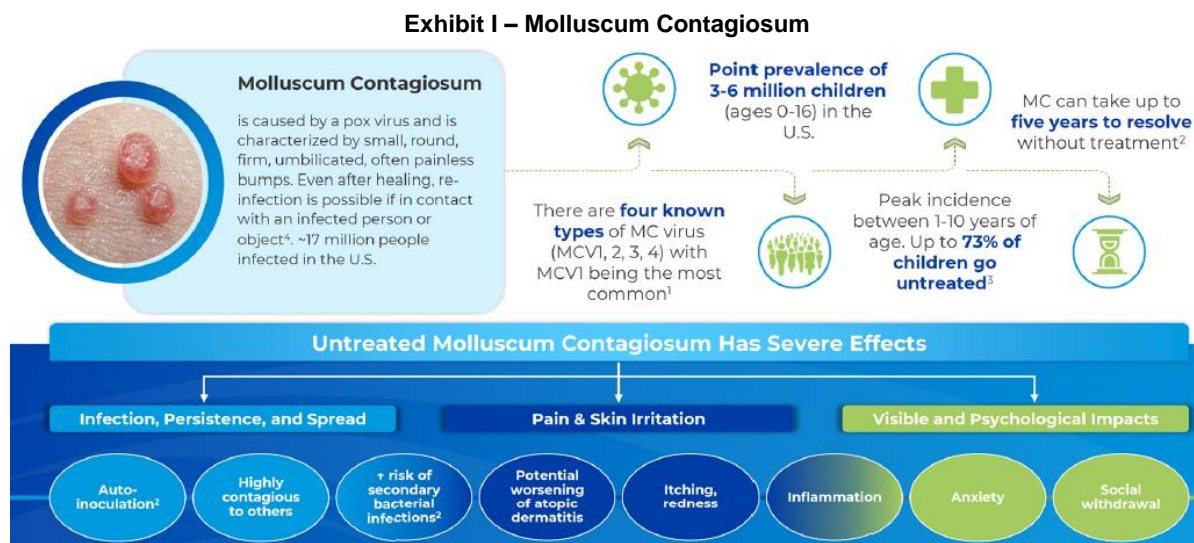
Nitricil Platform

Nitricil is a co-condensed silica-based macromolecule which is able to covalently store nitric oxide (NO) and prevent it from decomposing into other oxides of nitrogen. The platform provides a nanoparticle delivery system that contains a nitric oxide releasing macromolecule consisting of a polysiloxane¹ (silicone-oxygen) backbone and covalently bound N diazeniumdiolate nitric oxide donors. Early development work for Zelsuvmi demonstrated the platform's ability to stably suspend NO and release it when mixed with a hydrogel. It can be modulated to provide a desired release profile of either a burst or steady delivery of drug. Preclinical and clinical work has been conducted in other dermatology indications beyond molluscum contagiosum including atopic dermatitis, psoriasis, acne vulgaris and tinea pedis.

¹ Polysiloxanes are frequently used for medical applications and are stable and unreactive. They are hydrophobic and have a low moisture uptake.

The nitric oxide molecule offers antiviral, anti-bacterial, anti-fungal and anti-inflammatory properties. It provides multiple modes of action that can address numerous dermatology conditions such as acne and its underlying bacterial and inflammatory drivers, human papillomavirus (HPV) and MC which are viral in nature and atopic dermatitis and psoriasis which are inflammatory in nature. We anticipate that the Nitricil platform will be retained by Ligand and further development of new products addressing new indications may be undertaken by Pelthos under a license agreement.

In April 2024, Ligand created a new company called Pelthos Therapeutics to prepare for the commercialization of Zelsuvmi. Scott Plesha was named CEO of the company. Ligand voiced its intent to commercialize Zelsuvmi in partnership with a capital provider and/or strategic partner. In addition to the value of the approved product and Nitricil platform, Pelthos also will owe Ligand milestones and royalties of 13% on worldwide sales. Novan had signed an agreement with Sato Pharmaceutical in Japan for development and commercialization of SB206 (Zelsuvmi in the US). We anticipate that any Zelsuvmi milestones and royalties owed by Sato will revert directly to Ligand.



Source: Pelthos Therapeutics 2Q:25 Corporate Presentation

Rough Valuation

Based on the information available, we anticipate Zelsuvmi peak sales in the several hundred-million-dollar range. In previous analysis that we have done on the asset, we estimated an addressable market of about six million patients and penetration of up to 10% in the United States. A competing product branded Ycanth which also treats molluscum contagiosum was approved in 2023. While this product is administered in a doctor's office in contrast to Zelsuvmi's at-home administration, we think its pricing is a good guide. Based on a review of sources, the wholesale acquisition cost is \$685 per applicator. In terms of timing, we anticipate it will take six years to reach peak penetration with population growth and pricing to provide revenue increases in subsequent years.

Milestones

- FDA approval of Zelsuvmi – January 2024
- Creation of Pelthos Therapeutics to commercialize Zelsuvmi – April 2024
- Zelsuvmi partnering and launch – Summer 2025
- Pelthos cash flow breakeven - 2027

Summary

After holding on to Pelthos for the last year, Ligand executes a deal to spin out the subsidiary and begin the launch of Zelsuvmi. With the additional clarity of this transaction, the Pelthos executive team is accelerating its efforts to assemble a commercialization team and stage the product for further distribution and sale. Over the next few months, we expect several boxes to be checked including the SEC decision on merger category and continued hiring of the commercialization team. By this summer we expect that the deal will be cleared and \$50 million in financing will land on the new company's balance sheet. As part of the merger Channel Therapeutics will change its name to Pelthos Therapeutics and trade under the ticker PTHS on the NYSE.

PROJECTED FINANCIALS

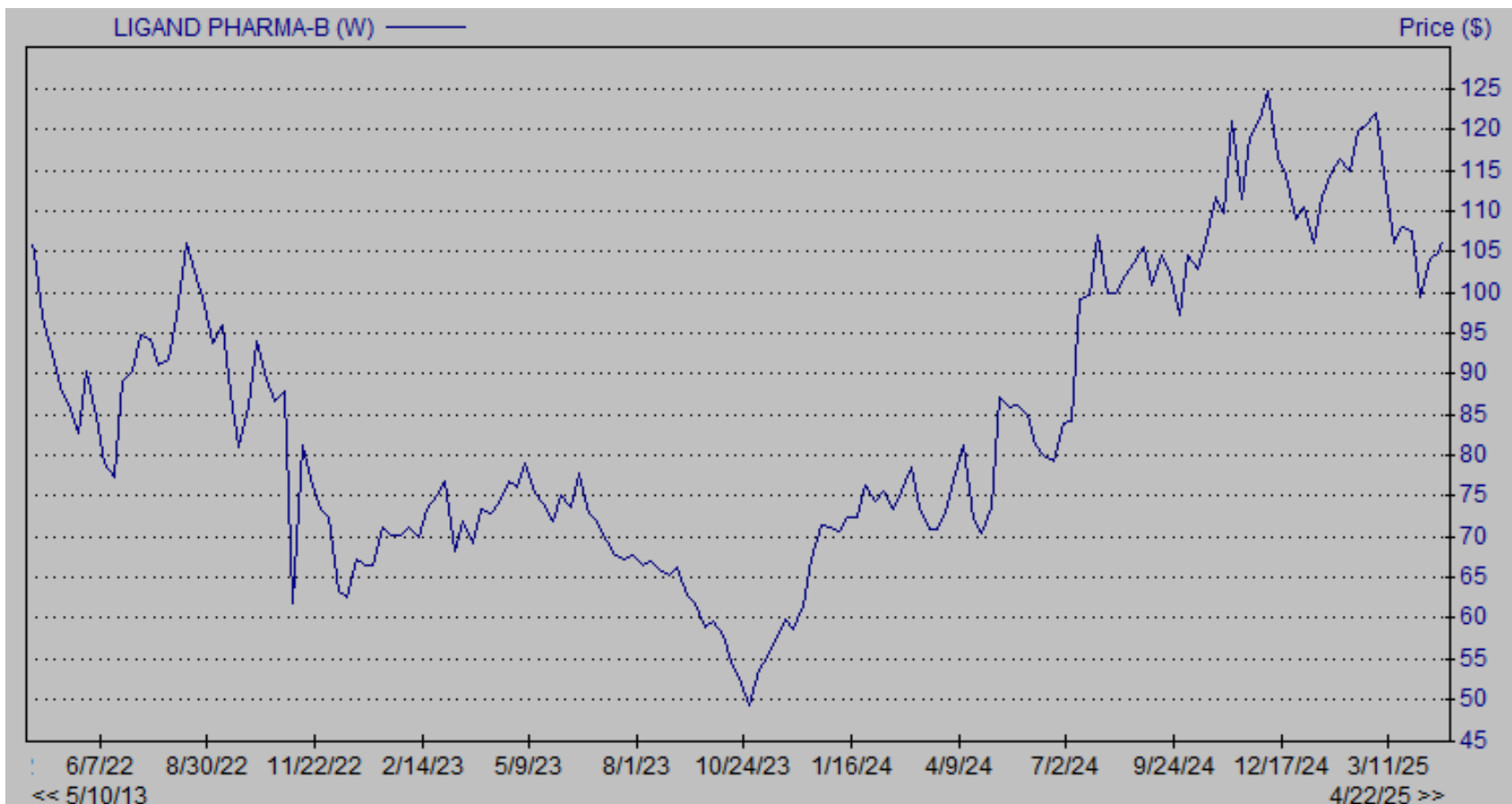
Ligand Pharmaceuticals, Inc. - Income Statement

Ligand Pharmaceuticals, Inc.	2023 A	Q1 A	Q2 E	Q3 A	Q4 A	2024 A	2025 E	2026 E
Total Revenues (\$US '000)	\$131,314	\$30,978	\$41,531	\$51,812	\$42,812	\$167,133	\$191,136	\$215,639
YOY Growth	-33.1%	-30%	58%	58%	52%	27%	14%	13%
Cost of Goods Sold (Captisol)	\$10,512	\$2,882	\$2,906	\$2,449	\$2,837	\$11,074	\$13,071	\$11,786
Product Gross Margin	62.9%	68.7%	61.3%	60.8%	64.2%	64.1%	63.8%	64.0%
Amortization of intangibles	\$33,654	\$8,186	\$8,257	\$8,258	\$8,258	\$32,959	\$30,128	\$31,848
Research & development	\$24,537	\$5,971	\$5,354	\$5,675	\$4,425	\$21,425	\$7,221	\$7,740
General & administrative	\$52,790	\$10,951	\$17,623	\$24,475	\$25,605	\$78,654	\$31,670	\$35,200
Other	(\$2,121)	\$0	\$26,491	\$7,812	\$11,324	\$45,627	\$0	\$0
Income from operations	\$11,942	\$2,988	(\$19,100)	\$3,143	(\$9,637)	(\$22,606)	\$109,046	\$129,064
Operating Margin								
Interest expense	(\$656)	(\$141)	(\$1,268)	(\$741)	\$1,048	\$5,018	(\$600)	(\$600)
Other income, net	\$52,374	\$110,600	(\$45,022)	(\$8,741)	(\$30,611)	\$20,106	\$9,200	\$0
Pre-Tax Income	\$63,660	\$113,447	(\$65,390)	(\$6,339)	(\$39,200)	\$2,518	\$117,646	\$128,464
Provision for Income Tax	\$9,841	\$27,308	(\$13,479)	\$833	(\$8,112)	\$6,550	\$25,882	\$29,547
Tax Rate	15.5%	24.1%	20.6%	21.0%	21.0%	260.1%	22.0%	23.0%
Net Income	\$53,819	\$86,139	(\$51,911)	(\$7,172)	(\$31,088)	(\$4,032)	\$91,764	\$98,918
Net Margin								
Reported EPS	\$3.03	\$4.75	(\$2.88)	(\$0.39)	(\$1.64)	(\$0.22)	\$4.63	\$5.00
Adjustments	\$1.03	(\$3.55)	\$4.28	\$2.23	\$2.91	\$5.96	\$1.52	\$1.61
Core EPS	\$4.06	\$1.20	\$1.40	\$1.84	\$1.27	\$5.74	\$6.14	\$6.60
YOY Growth						41%	7%	7%
Fully Diluted Shares	17,757	18,122	18,028	18,419	18,974	18,290	19,840	19,800

Source: Company Filing // Zacks Investment Research, Inc. Estimates

HISTORICAL STOCK PRICE

Ligand Pharmaceuticals, Inc. – Share Price Chart²



² Source: Zacks Research System

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