

BIOMARIN PHARMACEUTICAL INC  
Form 10-Q  
April 29, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from                      to                      .

Commission File Number: 000-26727

BioMarin Pharmaceutical Inc.

(Exact name of registrant as specified in its charter)

Delaware                      68-0397820  
(State or other jurisdiction of      (I.R.S. Employer  
incorporation or organization)      Identification No.)

770 Lindero Street, San Rafael, California      94901  
(Address of principal executive offices)      (Zip Code)

(415) 506-6700

(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 179,071,353 shares of common stock, par value \$0.001, outstanding as of April 15, 2019.

## BIOMARIN PHARMACEUTICAL INC.

## TABLE OF CONTENTS

PART I. <u>FINANCIAL INFORMATION</u>	Page 3
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2019 (Unaudited) and December 31, 2018</u>	3
<u>Condensed Consolidated Statements of Comprehensive Loss (Unaudited) for the three months ended March 31, 2019 and 2018</u>	4
<u>Condensed Consolidated Statement of Stockholders' Equity (Unaudited) for the three months ended March 31, 2019 and 2018</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2019 and 2018</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	34
Item 4. <u>Controls and Procedures</u>	34
PART II. <u>OTHER INFORMATION</u>	34
Item 1. <u>Legal Proceedings</u>	34
Item 1A. <u>Risk Factors</u>	34
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
Item 3. <u>Defaults Upon Senior Securities</u>	57
Item 4. <u>Mine Safety Disclosures</u>	57
Item 5. <u>Other Information</u>	57
Item 6. <u>Exhibits</u>	58
<u>SIGNATURES</u>	60

Unless the context suggests otherwise, references in this Quarterly Report on Form 10-Q to "BioMarin," the "Company," "we," "us," and "our" refer to BioMarin Pharmaceutical Inc. and, where appropriate, its wholly owned subsidiaries.

BioMarin®, Brineura®, Firdapse®, Kuvan®, Naglazyme®, Palynziq® and Vimizim® are our registered trademarks. Aldurazyme® is a registered trademark of BioMarin/Genzyme LLC. All other brand names and service marks, trademarks and other trade names appearing in this report are the property of their respective owners.

## Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" as defined under securities laws. Many of these statements can be identified by the use of terminology such as "believes," "expects," "intends," "anticipates," "plans," "may," "will," "could," "would," "projects," "continues," "estimates," "potential," "opportunity" or the negative versions of these terms and other similar expressions. Our actual results or experience could differ significantly from the forward-looking statements. Factors that could cause or contribute to these differences include those discussed in "Risk Factors," in Part II, Item 1A of this Quarterly Report on Form 10-Q as well as information provided elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the Securities and Exchange Commission (the SEC) on February 28, 2019. You should carefully consider that information before you make an investment decision.

You should not place undue reliance on these types of forward-looking statements, which speak only as of the date that they were made. These forward-looking statements are based on the beliefs and assumptions of the Company's management based on information currently available to management and should be considered in connection with any written or oral forward-looking statements that the Company may issue in the future as well as other cautionary statements the Company has made and may make. Except as required by law, the Company does not undertake any obligation to release publicly any revisions to these forward-looking statements after completion of the filing of this Quarterly Report on Form 10-Q to reflect later events or circumstances or the occurrence of unanticipated events.

The discussion of the Company's financial condition and results of operations should be read in conjunction with the Company's Condensed Consolidated Financial Statements and the related Notes thereto included in this Quarterly Report on Form 10-Q.

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## BIOMARIN PHARMACEUTICAL INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2019 and December 31, 2018

(In thousands, except share and per share amounts)

	March 31, 2019	December 31, 2018(1)
<b>ASSETS</b>	<b>(unaudited)</b>	
Current assets:		
Cash and cash equivalents	\$364,369	\$493,982
Short-term investments	530,485	590,326
Accounts receivable, net	393,429	342,633
Inventory	534,696	530,871
Other current assets	93,876	98,403
Total current assets	1,916,855	2,056,215
Noncurrent assets:		
Long-term investments	320,000	235,864
Property, plant and equipment, net	951,890	948,682
Intangible assets, net	485,981	491,808
Goodwill	197,039	197,039
Deferred tax assets	467,333	460,952
Other assets	96,300	36,568
Total assets	\$4,435,398	\$4,427,128
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$412,830	\$437,290
Short-term contingent consideration	88,156	85,951
Total current liabilities	500,986	523,241
Noncurrent liabilities:		
Long-term convertible debt, net	834,766	830,417
Long-term contingent consideration	48,461	46,883
Other long-term liabilities	114,558	58,647
Total liabilities	1,498,771	1,459,188
Stockholders' equity:		
Common stock, \$0.001 par value: 500,000,000 shares authorized;	179	178

179,033,104 and 178,252,954 shares issued and outstanding, respectively.		
Additional paid-in capital	4,682,900	4,669,926
Company common stock held by Nonqualified Deferred Compensation Plan		
(the NQDC)	(12,912 )	(13,301 )
Accumulated other comprehensive income	19,794	5,271
Accumulated deficit	(1,753,334)	(1,694,134 )
Total stockholders' equity	2,936,627	2,967,940
Total liabilities and stockholders' equity	\$4,435,398	\$ 4,427,128

(1) December 31, 2018 balances were derived from the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 28, 2019.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

## BIOMARIN PHARMACEUTICAL INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Three Months Ended March 31, 2019 and 2018

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
<b>REVENUES:</b>		
Net product revenues	\$394,483	\$369,099
Royalty and other revenues	6,262	4,348
Total revenues	400,745	373,447
<b>OPERATING EXPENSES:</b>		
Cost of sales	89,182	82,333
Research and development	183,591	183,948
Selling, general and administrative	162,158	138,336
Intangible asset amortization and contingent consideration	19,765	13,202
Total operating expenses	454,696	417,819
<b>LOSS FROM OPERATIONS</b>	<b>(53,951 )</b>	<b>(44,372 )</b>
Equity in the income (loss) of BioMarin/Genzyme LLC	(185 )	68
Interest income	6,298	5,234
Interest expense	(6,727 )	(11,562 )
Other income (expense), net	1,608	(172 )
<b>LOSS BEFORE INCOME TAXES</b>	<b>(52,957 )</b>	<b>(50,804 )</b>
Provision for (benefit from) income taxes	3,516	(6,655 )
<b>NET LOSS</b>	<b>\$(56,473 )</b>	<b>\$(44,149 )</b>
<b>NET LOSS PER SHARE, BASIC</b>	<b>\$(0.32 )</b>	<b>\$(0.25 )</b>
<b>NET LOSS PER SHARE, DILUTED</b>	<b>\$(0.32 )</b>	<b>\$(0.26 )</b>
Weighted average common shares outstanding, basic	178,271	175,932
Weighted average common shares outstanding, diluted	178,271	176,150
<b>COMPREHENSIVE LOSS</b>	<b>\$(41,950 )</b>	<b>\$(49,147 )</b>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

## BIOMARIN PHARMACEUTICAL INC.

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Three Months Ended March 31, 2019 and 2018

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
<b>Shares of Common Stock</b>		
Beginning balance (at December 31, 2018 and December 31, 2017,		
respectively) <sup>(1)</sup>	178,253	175,844
Issuances under equity incentive plans	780	809
Ending balance	179,033	176,653
<b>Stockholders' equity, beginning balances (at December 31, 2018 and</b>		
December 31, 2017, respectively)	\$2,967,940	\$2,808,663
<b>Common stock:</b>		
Beginning balance <sup>(1)</sup>	178	176
Issuances under equity incentive plans, net of tax	1	1
Ending balance	179	177
<b>Additional paid-in capital:</b>		
Beginning balance <sup>(1)</sup>	4,669,926	4,483,220
Issuances under equity incentive plans, net of tax	(28,732 )	(9,766 )
Stock-based compensation	41,706	36,997
Beginning balance <sup>(1)</sup>	4,682,900	4,510,451
<b>Company common stock held by the NQDC:</b>		
Beginning balance	(13,301 )	(14,224 )
Common stock held by the NQDC	389	207
Ending balance	(12,912 )	(14,017 )
<b>Accumulated other comprehensive income (loss):</b>		
Beginning balance <sup>(1)</sup>	5,271	(22,961 )
Impact of changes in accounting principle	—	(586 )
Other comprehensive income (loss)	14,523	(4,998 )
Ending balance	19,794	(28,545 )
<b>Accumulated Deficit:</b>		
Beginning balance <sup>(1)</sup>	(1,694,134)	(1,637,548)
Impact of changes in accounting principles	(2,727 )	20,634
Net loss	(56,473 )	(44,149 )
Ending balance	(1,753,334)	(1,661,063)
Total stockholders' equity, ending balances (at March 31, 2019 and	\$2,936,627	\$2,807,003



March 31, 2018, respectively)

- (1) The beginning balances were derived from the audited Consolidated Financial Statements included in Company's Annual Report on Form 10-K for the year ended December 31, 2018 and 2017, respectively, filed with the SEC on February 28, 2019 and February 26, 2018, respectively.

.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

## BIOMARIN PHARMACEUTICAL INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31, 2019 and 2018

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(56,473 )	\$(44,149 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	22,427	23,633
Non-cash interest expense	4,409	8,601
Accretion of discount on investments	(891 )	761
Stock-based compensation	42,761	36,608
Deferred income taxes	(704 )	(13,988 )
Unrealized foreign exchange (gain) loss	(419 )	5,616
Non-cash changes in the fair value of contingent consideration	12,260	5,631
Other	(19 )	662
Changes in operating assets and liabilities:		
Accounts receivable, net	(51,690 )	(26,257 )
Inventory	1,735	10,843
Other current assets	10,112	2,924
Other assets	2,220	(1,099 )
Accounts payable and accrued liabilities	(42,070 )	(51,887 )
Other long-term liabilities	1,474	(408 )
Net cash used in operating activities	(54,868 )	(42,509 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(28,756 )	(30,164 )
Maturities and sales of investments	219,894	104,462
Purchases of available-for-sale securities	(239,843)	(145,933)
Other	(1,774 )	(99 )
Net cash used in investing activities	(50,479 )	(71,734 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from exercises of awards under equity incentive plans	5,798	13,134
Taxes paid related to net share settlement of equity awards	(30,105 )	(22,899 )
Other	(674 )	—
Net cash used in financing activities	(24,981 )	(9,765 )
Effect of exchange rate changes on cash	715	(40 )
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(129,613)</b>	<b>(124,048)</b>
Cash and cash equivalents:		
Beginning of period	\$493,982	\$598,028

Edgar Filing: BIOMARIN PHARMACEUTICAL INC - Form 10-Q

End of period	\$364,369	\$473,980
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for income taxes	\$906	\$11,731
Cash paid for interest	1,483	1,528
SUPPLEMENTAL CASH FLOW DISCLOSURES FOR NON CASH INVESTING AND FINANCING ACTIVITIES:		
Decrease in accounts payable and accrued liabilities related to fixed assets	\$(3,502 )	\$(11,367 )

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

BIOMARIN PHARMACEUTICAL INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of U.S. Dollars, except per share amounts or as otherwise disclosed)

(1) NATURE OF OPERATIONS

BioMarin Pharmaceutical Inc. (the Company) is a global biotechnology company that develops and commercializes innovative therapies for people with serious and life-threatening rare diseases and medical conditions. The Company selects product candidates for diseases and conditions that represent a significant unmet medical need, have well-understood biology and provide an opportunity to be first-to-market or offer a significant benefit over existing products. The Company's portfolio consists of several commercial therapies and multiple clinical and pre-clinical product candidates.

The Company expects to continue to finance future cash needs that exceed its operating activities primarily through its current cash, cash equivalents and investments and through proceeds from debt or equity offerings, commercial borrowing, or through collaborative agreements with corporate partners. If the Company elects to increase its spending on development programs significantly above current long-term plans or enters into potential licenses and other acquisitions of complementary technologies, products or companies, the Company may need additional capital.

(2) BASIS OF PRESENTATION

The accompanying Condensed Consolidated Financial Statements have been prepared pursuant to United States (U.S.) generally accepted accounting principles (U.S. GAAP) and the rules and regulations of the SEC for Quarterly Reports on Form 10-Q and do not include all of the information and note disclosures required by U.S. GAAP for complete financial statements, although the Company believes that the disclosures herein are adequate to ensure that the information presented is not misleading. The Condensed Consolidated Financial Statements should therefore be read in conjunction with the Consolidated Financial Statements and Notes thereto for the fiscal year ended December 31, 2018 included in the Company's Annual Report on Form 10-K. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2019 or any other period.

On January 1, 2019, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, Leases (ASC Topic 842) using the modified retrospective method for all lease arrangements at the beginning of the period of adoption. Results for reporting periods beginning January 1, 2019 are presented under ASC Topic 842, while prior period amounts were not adjusted and continue to be presented in accordance with the Company's historical accounting under ASC Topic 840, Leases. ASC Topic 842 had a material impact on the Company's Condensed Consolidated Balance Sheet but did not have a significant impact on the Company's consolidated net loss. The Company elected to use the practical expedient allowing the use-of-hindsight and reassessed the lease term for all unexpired leases that commenced before the effective date of ASC Topic 842. For leases that commenced and expired before the effective date of ASC Topic 842, the Company elected not to reassess the expired leases. The Company also elected not to include leases with initial terms of twelve months or less in the recognized right-of-use (ROU) assets and lease liabilities.

As a result of the cumulative impact of adopting ASC Topic 842, the Company recorded lease ROU assets of \$55.9 million and lease liabilities of \$59.0 million as of January 1, 2019, primarily related to real estate and equipment,

based on the present value of future lease payments on the date of adoption. The difference between the ROU assets and lease liabilities was recorded as an adjustment to Accumulated Deficit. Refer to Note 11 for additional disclosures required by ASC Topic 842.

On January 1, 2019, the Company adopted Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12), using the modified retrospective method. This ASU provides new guidance about income statement classification and eliminates the requirement to separately measure and report hedge ineffectiveness. Results for reporting periods beginning January 1, 2019 are presented under ASU 2017-12, while prior period amounts were not adjusted and continue to be presented in accordance with the Company's historical accounting. The adoption of this ASU did not have a significant impact on the Company's Condensed Consolidated Financial Statements. See Note 10 for additional disclosures required by ASU 2017-12.

U.S. GAAP requires management to make estimates and assumptions that affect amounts reported in the Condensed Consolidated Financial Statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from those estimates. The Condensed Consolidated Financial Statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair presentation of results for these interim periods.

Management performed an evaluation of the Company's activities through the date of filing of this Quarterly Report on Form 10-Q, and has concluded that there were no subsequent events or transactions that occurred subsequent to the balance sheet date prior to filing this Quarterly Report on Form 10-Q that would require recognition or disclosure in the Condensed Consolidated Financial Statements.

Table of Contents

BIOMARIN PHARMACEUTICAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(In thousands of U.S. Dollars, except per share amounts or as otherwise disclosed)

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as detailed below, there have been no material changes to the Company's significant accounting policies during the three months ended March 31, 2019, as compared to the significant accounting policies disclosed in Note 3 – Significant Accounting Policies included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Leases

The Company determines if an arrangement is a lease at inception. For leases where the Company is the lessee, ROU assets represent the Company's right to use the underlying asset for the term of the lease and the lease liabilities represent an obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the lease term. The Company uses its incremental borrowing rate based on the information available at the commencement date of the underlying lease arrangement to determine the present value of lease payments. The ROU asset also includes any prepaid lease payments and any lease incentives received. The lease term to calculate the ROU asset and related lease liability includes options to extend or terminate the lease when it is reasonably certain that the Company will exercise the option. The Company's lease agreements generally do not contain any material variable lease payments, residual value guarantees or restrictive covenants.

Lease expense for operating leases is recognized on a straight-line basis over the lease term as an operating expense while expense for financing leases is recognized as depreciation expense and interest expense using the accelerated interest method of recognition. When an arrangement requires payments for lease and non-lease components, the Company has elected to account for lease and non-lease components separately. Lease expense for leases with a term of twelve months or less is recognized on a straight-line basis.

Derivatives and Hedging Activities

The Company accounts for its derivative instruments as either assets or liabilities on the balance sheet and measures them at fair value, which is estimated using current exchange rates and interest rates, and takes into consideration the current creditworthiness of the counterparties or the Company, as applicable. For derivatives designated as hedging instruments, the entire change in the fair value of qualifying derivative instruments is recorded in Accumulated Other Comprehensive Income (AOCI) and amounts deferred in AOCI will be reclassified to earnings in the same line item in which the earnings effect of the hedged item is reported. Derivatives not designated as hedging instruments are adjusted to fair value through earnings in Operating Expenses in the Consolidated Statements of Comprehensive Loss.

(4) RECENT ACCOUNTING PRONOUNCEMENTS

Except as described in Note 2 – Basis of Presentation, there have been no new accounting pronouncements adopted by the Company or new accounting pronouncements issued by the FASB during the three months ended March 31, 2019, as compared to the recent accounting pronouncements described in Note 4 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, that the Company believes are of significance or potential significance to the Company.

Table of Contents

## BIOMARIN PHARMACEUTICAL INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(In thousands of U.S. Dollars, except per share amounts or as otherwise disclosed)

## (5) FINANCIAL INSTRUMENTS

All marketable securities were classified as available-for-sale at March 31, 2019 and December 31, 2018.

The following tables show the Company's cash, cash equivalents and available-for-sale securities by significant investment category as of March 31, 2019 and December 31, 2018, respectively:

		Gross	Gross			Short-term	Long-term
	Amortized	Unrealized	Unrealized	Aggregate	Cash and	Marketable	Marketable
	Cost	Gains	Losses	Fair Value	Cash	Securities	Securities
					Equivalents	(1)	(2)
Level 1:							
Cash	\$ 220,980	\$ —	\$ —	\$ 220,980	\$ 220,980	\$ —	\$ —
Level 2:							
Money market instruments	122,400	—	—	122,400	122,400	—	—
Corporate debt securities	563,691	1,535	(765 )	564,461	—	309,721	254,740
Commercial paper	84,584	—	—	84,584	20,989	63,595	—
U.S. government agency securities	222,183	430	(369 )	222,244	—	157,169	65,075
Foreign and other	50	136	(1 )	185	—	—	185
Subtotal	992,908	2,101	(1,135 )	993,874	143,389	530,485	320,000
Total	\$ 1,213,888	\$ 2,101	\$ (1,135 )	\$ 1,214,854	\$ 364,369	\$ 530,485	\$ 320,000

		Gross	Gross			Short-term	Long-term
	Amortized	Unrealized	Unrealized	Aggregate	Cash and	Marketable	Marketable
	Cost	Gains	Losses	Fair Value	Cash	Securities	Securities
					Equivalents	(1)	(2)
Level 1:							
Cash	\$ 228,809	\$ —	\$ —	\$ 228,809	\$ 228,809	\$ —	\$ —
Level 2:							
Money market instruments	205,736	—	—	205,736	205,736	—	—
Corporate debt securities	564,852	214	(2,288 )	562,778	2,000	376,545	184,233
Commercial paper	77,702	—	—	77,702	21,964	55,738	—



U.S. government agency securities	240,436	144	(697 )	239,883	31,474	156,967	51,442
Foreign and other	5,126	139	(1 )	5,264	3999	1,076	189
Subtotal	1,093,852	497	(2,986 )	1,091,363	265,173	590,326	235,864
Total	\$1,322,661	\$ 497	\$ (2,986 )	\$1,320,172	\$ 493,982	\$ 590,326	\$ 235,864

(1)The Company's short-term marketable securities mature in one year or less.

(2) The Company's long-term marketable securities mature between one and five years.

As of March 31, 2019, the Company's investments in an unrealized loss position were not significant, and since the Company has the ability and intent to hold all investments that have been in a continuous loss position until maturity or recovery, no other-than-temporary impairment was deemed to have occurred.

## (6) INTANGIBLE ASSETS

Intangible assets consisted of the following:

	March 31, 2019	December 31, 2018
Intangible assets:		
Finite-lived intangible assets	\$ 309,702	\$ 307,995
Indefinite-lived intangible assets	326,359	326,359
Gross intangible assets:	636,061	634,354
Less: Accumulated amortization	(150,080)	(142,546 )
Net carrying value	\$485,981	\$ 491,808

Table of Contents

BIOMARIN PHARMACEUTICAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(In thousands of U.S. Dollars, except per share amounts or as otherwise disclosed)

(7) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consisted of the following:

	March 31, 2019	December 31, 2018
Building and improvements	\$698,231	\$ 694,447
Manufacturing and laboratory equipment	349,967	345,947
Computer hardware and software	161,063	157,787
Leasehold improvements	42,201	41,188
Furniture and equipment	33,667	33,234
Land improvements	7,213	6,551
Land	77,993	77,993
Construction-in-progress	75,405	64,170
	1,445,740	1,421,317
Accumulated depreciation	(493,850 )	(472,635 )
Total property, plant and equipment, net	\$951,890	\$ 948,682

The construction-in-process balance primarily includes costs related to the Company's significant in-process projects at its facilities in Marin County, California, and in Shanbally, Ireland.

Depreciation expense for the three months ended March 31, 2019 was \$21.4 million, of which \$6.5 million was capitalized into inventory. Depreciation expense for the three months ended March 31, 2018 was \$20.0 million, of which \$4.0 million was capitalized into inventory.

(8) SUPPLEMENTAL BALANCE SHEET INFORMATION

Inventory consisted of the following:

March 31, December 31,

	2019	2018
Raw materials	\$ 60,427	\$ 74,616
Work-in-process	282,802	231,064
Finished goods	191,467	225,191
Total inventory	\$ 534,696	\$ 530,871

Accounts Payable and Accrued Liabilities consisted of the following:

	March 31, 2019	December 31, 2018
Accounts payable and accrued operating expenses	\$ 224,385	\$ 207,620
Accrued compensation expense	87,260	149,937
Accrued rebates payable	46,109	43,116
Accrued royalties payable	19,223	19,977
Value added taxes payable	11,351	7,785
Forward foreign currency exchange contracts	6,904	4,178
Lease liability	9,210	—
Other	8,388	4,677
Total accounts payable and accrued liabilities	\$ 412,830	\$ 437,290

Table of Contents

## BIOMARIN PHARMACEUTICAL INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(In thousands of U.S. Dollars, except per share amounts or as otherwise disclosed)

## (9) FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value in accordance with its policy in Note 3 – Significant Accounting Policies included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 28, 2019. The following tables below presents the classification within fair value hierarchy of financial assets and liabilities not disclosed elsewhere that are remeasured on a recurring basis.

Fair Value Measurements at March 31, 2019				
Quoted Price in				
Active				
Markets				
For	Significant	Other	Significant	
Identical	Observable		Unobservable	
Assets	Inputs		Inputs	
(Level				
1)	(Level 2)		(Level 3)	Total
Assets:				
Other current assets:				
NQDC Plan assets	\$ —	\$ 537	\$ —	\$ 537
Total other current assets	—	537	—	537
Other assets:				
NQDC Plan assets	—	14,707	—	14,707
Restricted investments <sup>(1)</sup>	—	2,406	—	2,406
Strategic investments <sup>(2)</sup>	1,247	—	—	1,247
Total other assets	1,247	17,113	—	18,360
Total assets	\$ 1,247	\$ 17,650	\$ —	\$ 18,897
Liabilities:				
Current liabilities:				
NQDC Plan liability	\$ 639	\$ 537	\$ —	\$ 1,176
Contingent consideration	—	—	88,156	88,156
Total current liabilities	639	537	88,156	89,332
Other long-term liabilities:				
NQDC Plan liability	\$ 17,448	\$ 14,707	—	32,155

Edgar Filing: BIOMARIN PHARMACEUTICAL INC - Form 10-Q

Contingent consideration	—	—	48,461	48,461
Total other long-term liabilities	17,448	14,707	48,461	80,616
Total liabilities	\$ 18,087	\$ 15,244	\$ 136,617	\$ 169,948

11

---

Table of Contents

## BIOMARIN PHARMACEUTICAL INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(In thousands of U.S. Dollars, except per share amounts or as otherwise disclosed)

Fair Value Measurements at December 31, 2018				
Quoted Price in				
Active Markets				
	For Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Other current assets:				
NQDC Plan assets	\$—	\$ 370	\$ —	\$370
Restricted investments <sup>(1)</sup>	—	9,581	—	9,581
Total other current assets	—	9,951	—	9,951
Other assets:				
NQDC Plan assets	—	12,828	—	12,828
Restricted investments <sup>(1)</sup>	—	2,450	—	2,450
Strategic investments <sup>(2)</sup>	942	—	—	942
Total other assets	942	15,278	—	16,220
Total assets	\$942	\$ 25,229	\$ —	\$26,171
Liabilities:				
Current liabilities:				
NQDC Plan liability	\$55	\$ 370	\$ —	\$425
Contingent consideration	—	—	85,951	85,951
Total current liabilities	55	370	85,951	86,376
Other long-term liabilities:				
NQDC Plan liability	17,598	12,828	—	30,426
Contingent consideration	—	—	46,883	46,883
Total other long-term liabilities	17,598	12,828	46,883	77,309
Total liabilities	\$17,653	\$ 13,198	\$ 132,834	\$163,685

(1) The restricted investments at March 31, 2019 and December 31, 2018 secure the Company's irrevocable standby letters of credit obtained in connection with certain commercial agreements.

(2) The Company has investments in marketable equity securities measured using quoted prices in an active market that are considered strategic investments and included in Other Assets on the Company's Condensed Consolidated Balance Sheets.

There were no transfers between levels during the three months ended March 31, 2019.

Liabilities measured at fair value on a recurring basis using Level 3 inputs includes contingent consideration. The following table represents a roll-forward of contingent consideration.

Contingent consideration at December 31, 2018	\$132,834
Changes in the fair value of other contingent consideration	12,260
Milestone payment	(5,987 )
Foreign exchange remeasurement of Euro denominated contingent consideration	(2,490 )
Contingent consideration at March 31, 2019	\$136,617

Table of Contents

## BIOMARIN PHARMACEUTICAL INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(In thousands of U.S. Dollars, except per share amounts or as otherwise disclosed)

## (10) DERIVATIVE INSTRUMENTS AND HEDGING STRATEGIES

The Company uses forward foreign currency exchange contracts (forward contracts) to hedge certain operational exposures resulting from potential changes in foreign currency exchange rates. Such exposures result from portions of the Company's forecasted product revenues and operating expenses being denominated in currencies other than the U.S. Dollar (USD), primarily the Euro. The Company designates certain of these forward contracts as hedging instruments and also uses forward contracts for economic hedging purposes which are not designated as hedging instruments. Whether designated or undesignated, these forward contracts protect against the reduction in value of forecasted foreign currency cash flows resulting from net product revenues, operating expenses and asset or liability positions designated in currencies other than the USD. To receive hedge accounting treatment, derivatives that hedge cash flows must be highly effective at offsetting changes to expected future cash flows on hedged transactions. The Company does not hold or issue derivative instruments for trading or speculative purposes.

The following table summarizes the Company's derivatives designated as hedging instruments outstanding as of March 31, 2019 (notional amounts in millions):

	Number of	Aggregate Notional Amount in Foreign Currency	Maturity
Foreign Exchange Contracts	Contracts		
Australian Dollars – Sell	6	2.5	Mar. 2019 - Jun. 2019
Brazilian Reals – Sell	10	147.0	May 2019
Canadian Dollars – Sell	6	7.8	Mar. 2019 - Jun. 2019
Colombian Pesos – Sell	12	105,300.0	Mar. 2019 - Mar. 2020
Euros – Purchase	151	186.1	Mar. 2019 - Feb. 2022
Euros – Sell	459	556.7	Mar. 2019 - Feb. 2022
Norwegian Krone – Sell	3	11.6	Mar. 2019 - Jun. 2019
Total	647		

The following table summarizes the Company's derivatives not designated as hedging instruments outstanding as of March 31, 2019 (notional amounts in millions):

	Number of	Aggregate Notional Amount in
--	--------------	---------------------------------------



Foreign Exchange Contracts	Contracts	Foreign Currency	Maturity
Brazilian Reais – Purchase	3	15.5	May 2019
Colombian Pesos – Sell	2	77,000.0	Mar. 2019 - May 2019
Euros – Purchase	7	145.8	Mar. 2019 - May 2019
Euros – Sell	1	1.0	Mar. 2019 - Apr. 2019
Great British Pounds – Purchase	1	8.2	May 2019
Rubles – Sell	2	700.0	Mar. 2019 - Apr. 2019
Total	16		

Table of Contents

## BIOMARIN PHARMACEUTICAL INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(In thousands of U.S. Dollars, except per share amounts or as otherwise disclosed)

The fair value carrying amounts of the Company's derivatives, as classified within the fair value hierarchy, were as follows:

	Asset Derivatives March 31, 2019		Liability Derivatives March 31, 2019	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Level 2 <sup>(1)</sup>				
Forward foreign currency exchange contracts	Other current assets	\$ 19,931	Accounts payable and accrued liabilities	\$ 5,177
Forward foreign currency exchange contracts	Other assets	16,221	Other long-term liabilities	5,445
Total		36,152		10,622
Derivatives not designated as hedging instruments:				
Level 2 <sup>(1)</sup>				
Forward foreign currency exchange contracts	Other current assets	535	Accounts payable and accrued liabilities	1,727
Forward foreign currency exchange contracts	Other assets	—	Other long-term liabilities	—
Total		535		1,727
Total value of derivative contracts		\$ 36,687		\$ 12,349

	Asset Derivatives December 31, 2018		Liability Derivatives December 31, 2018	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Level 2 <sup>(1)</sup>				
Forward foreign currency exchange contracts	Other current assets	\$ 12,686	Accounts payable and accrued liabilities	\$ 4,036
Forward foreign currency exchange contracts	Other assets	10,324	Other long-term liabilities	3,653

Total		23,010		7,689
Derivatives not designated as hedging instruments:				
Level 2 <sup>(1)</sup>				
Forward foreign currency exchange contracts	Other current assets	168	Accounts payable and accrued liabilities	142
Total		168		142
Total value of derivative contracts		\$ 23,178		\$ 7,831

(1) For additional discussion of fair value measurements, see Note 3 – Summary of Significant Accounting Policies included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 28, 2019.

The following tables summarize the impact of gains and losses from the Company's derivatives designated as hedging instruments on its Condensed Consolidated Financial Statements for the period presented.

	Three Months Ended March 31, 2019
Amount of Gain (Loss) Recognized in Other Comprehensive Income	\$ 12,825

Table of Contents

BIOMARIN PHARMACEUTICAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(In thousands of U.S. Dollars, except per share amounts or as otherwise disclosed)

	Three Months Ended March 31, 2019	
		Cash Flow Hedging Gains (Losses) Reclassified into Earnings
Derivatives Designated as Cash Flow Hedging Instruments		
Net product revenues as reported	\$394,483	\$ 695
Operating expenses as reported	\$454,696	\$ 271
		Gains (Losses) Recognized in Earnings
Derivatives Not Designated as Hedging Instruments		
Operating Expenses		\$ (2,978 )

Over the next twelve months, the Company expects to reclassify unrealized gains of \$10.6 million from AOCI to earnings as the forecasted revenue and operating expense transactions occur.

The Company is exposed to counterparty credit risk on all of its derivatives. The Company has established and maintains strict counterparty credit guidelines and enters into hedges only with financial institutions that are investment grade or better to minimize the Company's exposure to potential defaults. The Company is not required to pledge collateral under these agreements.

## (11) LEASES

The following table presents the Company's right-of-use (ROU) assets and lease liabilities as of March 31, 2019:

March 31,

Edgar Filing: BIOMARIN PHARMACEUTICAL INC - Form 10-Q

Lease Classification	Classification	2019
Assets:		
Operating	Other Assets	\$ 44,226
Financing	Other Assets	9,204
Total ROU assets		\$ 53,430
Liabilities:		
Current:		
Operating	Accounts payable and accrued liabilities	\$ 6,347
Financing	Accounts payable and accrued liabilities	2,863
Noncurrent:		
Operating	Other long-term liabilities	39,282
Financing	Other long-term liabilities	8,669
Total lease liabilities		\$ 57,161

Maturities of lease liabilities as of March 31, 2019 by fiscal year are as follows:

Maturity of Lease Liabilities	Operating	Financing	Total
2019	\$ 7,257	\$ 2,521	\$9,778
2020	8,443	3,465	11,908
2021	7,444	2,867	10,311
2022	7,079	2,259	9,338
2023	5,610	1,747	7,357
Thereafter	20,471	—	20,471
Total lease payments	56,304	12,859	69,163
Less: Interest	(10,675 )	(1,327 )	(12,002)
Present value of lease liabilities	\$ 45,629	\$ 11,532	\$57,161

Table of Contents

BIOMARIN PHARMACEUTICAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(In thousands of U.S. Dollars, except per share amounts or as otherwise disclosed)

Lease Cost	Classification	Three Months Ended March 31, 2019
Operating <sup>(1)</sup>	Operating Expenses	\$ 3,080
Financing:		
Amortization	Operating Expenses	607
Interest expense	Operating Expenses	161
Total lease costs		\$ 3,848

(1) Includes short-term leases and variable lease costs, both of which were not material.

Other Information	March 31, 2019
Weighted average remaining lease term (in years):	
Operating leases	7.8
Financing leases	4.0
Weighted average discount rate:	
Operating leases	5.2 %
Financing leases	5.4 %
Additional leases not yet commenced (undiscounted):	
Operating lease liability to commence approximately mid-2019	\$ 12,116

Supplemental Cash Flow Information	March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Cash used in operating activities:	
Operating leases	\$ 1,600
Financing leases	\$ 161

Cash used in financing activities:	
Financing leases	\$ 674
ROU assets obtained in exchange for lease obligations:	
Operating leases	\$ 19
Financing leases	\$ 68

Lease Commitments as of December 31, 2018

Minimum lease payments for future years as of December 31, 2018 were as follows:

2019	\$12,976
2020	12,549
2021	11,198
2022	10,574
2023	9,993
Thereafter	27,701
Total	\$84,991

Rent expense for the year ended December 31, 2018 was \$12.2 million. Deferred rent accruals at December 31, 2018 totaled \$2.1 million, of which \$0.5 million was current.

Table of Contents

## BIOMARIN PHARMACEUTICAL INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(In thousands of U.S. Dollars, except per share amounts or as otherwise disclosed)

## (12) DEBT

## Convertible Notes

As of March 31, 2019, the Company had outstanding fixed-rate notes with varying maturities for an undiscounted aggregate principal amount of \$870.0 million (collectively the Notes). The Notes are senior subordinated convertible obligations, and interest is payable in arrears, quarterly. The following table summarizes information regarding the Company's convertible debt:

	March 31, 2019	December 31, 2018
1.50% senior subordinated convertible notes due in October 2020 (the 2020 Notes)	374,993	374,993
Unamortized discount	(23,031 )	(26,581 )
Unamortized deferred offering costs	(2,010 )	(2,334 )
Convertible Notes due in 2020, net	349,952	346,078
0.599% senior subordinated convertible notes due in August 2024 (the 2024 Notes)	495,000	495,000
Unamortized discount	(7,593 )	(7,946 )
Unamortized deferred offering costs	(2,593 )	(2,715 )
Convertible Notes due in 2024, net	484,814	484,339
<b>Total convertible debt, net</b>	<b>\$ 834,766</b>	<b>\$ 830,417</b>
Fair value of fixed rate convertible debt		
Convertible Notes due in October 2020 <sup>(1)</sup>	425,216	419,722
Convertible Notes due in August 2024 <sup>(1)</sup>	505,751	491,626
<b>Total fair value of fixed rate convertible debt</b>	<b>\$ 930,967</b>	<b>\$ 911,348</b>

(1) The fair value of the Company's fixed-rate convertible debt is based on open market trades and is classified as Level 1 in the fair value hierarchy. For additional discussion of fair value measurements, see Note 3 – Summary of Significant Accounting Policies included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 28, 2019.

Interest expense on the Company's convertible debt consisted of the following:

Three Months  
Ended March 31,



	2019	2018
Coupon interest expense	\$2,157	\$2,961
Amortization of debt issuance costs	507	1,004
Accretion of discount on convertible notes	3,902	7,597
Total interest expense on convertible debt	\$6,566	\$11,562

See Note 12 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for additional information related to the Company's convertible debt.

#### Revolving Credit Facility

In October 2018, the Company entered into an unsecured revolving credit facility of up to \$200.0 million (the 2018 Credit Facility) and terminated the 2016 Credit Facility. The 2018 Credit Facility includes a letter of credit subfacility and a swingline loan subfacility and is intended to finance ongoing working capital needs and for other general corporate purposes. Borrowings under the 2018 Credit Facility bear interest, at the Company's option, at a rate equal to either (a) the LIBOR rate (except that if LIBOR is less than zero it shall be deemed to be zero for purposes of the 2018 Credit Facility), or LIBOR successor rate, plus an applicable margin ranging from 1.00% to 1.95% per annum, based upon the Company's net leverage ratio and EBITDA for each of the two most recently ended four-quarter measurement periods, or (b) the Base Rate, generally the prime lending rate, plus an applicable margin ranging from 0.00% to 0.95%, based upon the Company's net leverage ratio and EBITDA for each of the two most recently ended four-quarter measurement periods. Commitment fees payable on the undrawn amount range from 0.15% to 0.35% per annum based upon the Company's net leverage ratio and EBITDA for each of the two most recently ended four-quarter measurement periods. The Company's obligations under the Credit Facility are guaranteed by its direct subsidiary, California Corporate Center Acquisition LLC, and such obligations may in the future be guaranteed from time to time by certain other material domestic subsidiaries. The 2018 Credit Facility matures on October 19,

Table of Contents

## BIOMARIN PHARMACEUTICAL INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(In thousands of U.S. Dollars, except per share amounts or as otherwise disclosed)

2021 at which time all outstanding amounts become due and payable, except that if at least \$100.0 million aggregate principal amount of the 2020 Notes remain outstanding on August 1, 2020 and certain other conditions have not been met, the Company may be required to repay all amounts borrowed under the 2018 Credit Facility on August 1, 2020. The Company incurred approximately \$1.0 million of issuance costs, which will be amortized to Interest Expense over the term of the 2018 Credit Facility. The 2018 Credit Facility contains financial covenants requiring the Company to maintain a minimum interest coverage ratio and a minimum liquidity requirement. As of March 31, 2019 and December 31, 2018, there were no outstanding amounts due on nor any usage of the 2018 Credit Facility. As of March 31, 2019, the Company and certain of its subsidiaries that served as guarantors were in compliance with all covenants.

## (13) ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes amounts reclassified out of AOCI and their effect on the Company's Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2019 and 2018.

Details about AOCI Components	Three Months Ended March		Condensed Consolidated Statement of Comprehensive Loss Classification
	31, 2019	2018	
Gains (losses) on cash flow hedges:			
Forward foreign currency exchange			
contracts	\$695	\$(7,646)	Net product revenues
Forward foreign currency exchange			
contracts	271	1,861	Operating expenses
Total gain (loss) on cash flow hedges	\$966	\$(5,785)	

The following tables summarize changes in the accumulated balances for each component of AOCI, including current period other comprehensive income (loss) and reclassifications out of AOCI for the three months ended March 31, 2019 and 2018.

	Three Months Ended March 31, 2019			
	Unrealized			
	Gains			
	(Losses)	Unrealized Gains		
	on Cash	(Losses) on		
	Flow	Available-for-Sale		
	Hedges	Debt Securities	Other	Total
AOCI balance at December 31, 2018	\$7,201	\$ (1,917	) \$ (13	) \$5,271
Other comprehensive income before				
reclassifications	12,825	3,455	(1 )	16,279
Less: net gain (loss) reclassified from AOCI	966	—	—	966
Tax effect	—	(790	) —	(790 )
Net current-period other comprehensive income (loss)	11,859	2,665	(1 )	14,523
AOCI balance at March 31, 2019	\$19,060	\$ 748	\$ (14 )	\$19,794

Table of Contents

## BIOMARIN PHARMACEUTICAL INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(In thousands of U.S. Dollars, except per share amounts or as otherwise disclosed)

	Three Months Ended March 31, 2018			
	Unrealized			
	Gains			
	(Losses)	Unrealized Gains		
	on Cash	(Losses) on		
	Flow	Available-for-Sale		
	Hedges	Debt Securities	Other	Total
AOCI balance at December 31, 2017	\$(20,232)	\$ (2,722 )	\$ (7 )	\$(22,961)
Impact of change in accounting principle	—	(586 )	—	\$(586 )
AOCI balance at January 1, 2018	\$(20,232)	\$ (3,308 )	\$ (7 )	\$(23,547)
Other comprehensive income (loss) before				
reclassifications	(9,226 )	(2,021 )	1	(11,246)
Less: gain (loss) reclassified from AOCI	(5,785 )	—	—	(5,785 )
Tax effect	—	463	—	463
Net current-period other comprehensive income (loss)	(3,441 )	(1,558 )	1	(4,998 )
AOCI balance at March 31, 2018	\$(23,673)	\$ (4,866 )	\$	