

Allergan plc(AGN)

\$200.99 (As of 02/11/20)

Price Target (6-12 Months): **\$221.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

Summary

Allergan beat estimates for both earnings and sales in the fourth quarter. Allergan's key products like Botox, Juvederm, Viberzi and Vraylar are driving sales. Allergan also continues to deliver on its R&D pipeline with two major product launches expected in 2020. Biosimilars also represent significant opportunity. The acquisition by AbbVie could prove to be rewarding for Allergan's shareholders. Allergan's stock has outperformed the industry in the past year. However, sales are being hurt by loss of exclusivity of key drugs, pricing pressure and currency headwinds. Its blockbuster eye drug, Restasis is also expected to face generic competition this year. Meanwhile, new competition for key growth drivers, Botox, Restasis and Linzess, is a concern.

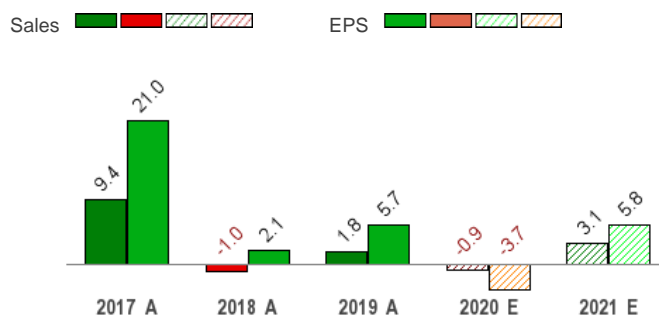
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$201.71 - \$114.27
20 Day Average Volume (sh)	2,609,206
Market Cap	\$66.0 B
YTD Price Change	5.1%
Beta	1.70
Dividend / Div Yld	\$2.96 / 1.5%
Industry	Medical - Generic Drugs
Zacks Industry Rank	Top 41% (105 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.2%
Last Sales Surprise	6.3%
EPS F1 Est- 4 week change	1.0%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	11.4
P/E F1	11.8
PEG F1	1.8
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					16,422 E
2020	3,777 E	3,924 E	3,957 E	4,063 E	15,926 E
2019	3,597 A	4,090 A	4,051 A	4,351 A	16,064 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$17.96 E
2020	\$4.16 E	\$4.33 E	\$4.27 E	\$4.45 E	\$16.98 E
2019	\$3.79 A	\$4.38 A	\$4.25 A	\$5.22 A	\$17.64 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/11/2020. The reports text is as of 02/12/2020.

Overview

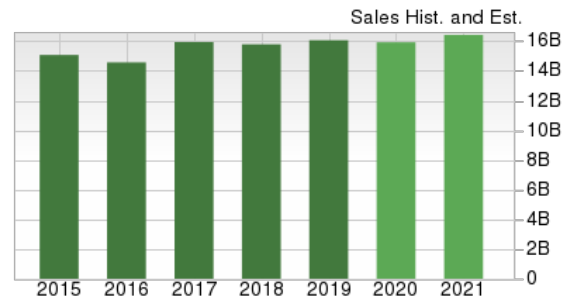
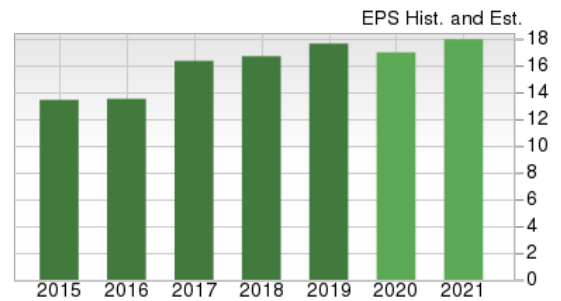
Dublin, Ireland-based Allergan plc is a pharma company engaged in the development, manufacturing, marketing, sale and distribution of branded pharmaceuticals, device, biologic, surgical and regenerative medicine products. It addresses central nervous system (CNS), eye care, medical aesthetics (MA) and dermatology, gastroenterology (GI), women's health, urology and anti-infective therapeutic categories.

Following its March 2015 acquisition of Botox maker Allergan Inc., Actavis changed its name to Allergan. Allergan sold its generics business in August 2016 and the Andia distribution business to Teva in October 2016.

Other significant acquisitions include Durata in November 2014, Forest Laboratories in July 2014, Warner Chilcott plc in October 2013 and the Actavis Group acquisition in October 2012. In April 2016, Pfizer terminated its agreement to combine with Allergan. In June 2019, Allergan announced that it has entered into a definitive transaction to be acquired by AbbVie in a cash and stock deal. AbbVie is offering \$120.30 in cash and 0.866 of its share (worth \$67.94) for each share of Allergan. The total transaction value is nearly \$63 billion. The deal is expected to close by the end of the first quarter of 2020.

Allergan reports its business under three segments - US Specialized Therapeutics (42% of 2019 sales), US General Medicine (36%) and International (21%).

Allergan posted sales of \$16.09 billion in 2019, up 1.9%.



Reasons To Buy:

- ▲ **Shares Outperforming Industry:** Allergan's shares have risen 43.2% in the past year compared with 2.7% increase for the industry in the said time frame.
- ▲ **AbbVie Buyout Can be Rewarding for Shareholders:** AbbVie's proposed offer represented a premium of 45% to Allergan's closing price on Jun 24, thereby proving to be rewarding for its shareholders. Moreover, with Restasis expected to face generic competition, fears of new competition to Botox and some recent pipeline setbacks, the merger with AbbVie could prove to be the best way out for Allergan.

Key products like Botox, Viberzi and Vraylar are supporting sales growth. Some major product launches are expected in 2020.

- ▲ **Growing Branded Business:** Allergan has a significant and expanding branded pharmaceutical business. The company's branded portfolio consists of products like Botox, Restasis, Viibryd, Linzess, Ozurdex among others. Relatively new products like Viberzi and Vraylar are also contributing to top-line growth.

With the Allergan Inc. acquisition, Allergan, which was previously known for its strong presence in the generics market, found itself in the company of the top 10 pharmaceutical companies across the world based on sales. The companies have complementary product portfolios and generated cost synergies. Allergan has strengthened its global presence especially in Canada, Europe, Latin America and Southeast Asia and other high-value growth markets like China and India. The addition of several blockbuster therapeutic franchises has boosted Allergan's North American Specialty Brands business significantly.

Further, in order to focus on its branded segment, Allergan sold its generics business to Teva. Allergan retained its global branded pharmaceutical and medical aesthetic businesses as well as the biosimilars development programs. Additionally, Allergan sold its Andax distribution segment to Teva in October 2016.

The divestiture helped Allergan's goal to transform into a branded growth pharma leader. Moreover, Allergan used part of the proceeds from the Teva deal for share buyback programs while it continues to invest in growth. The company also repaid debt of almost \$10 billion in 2016, \$2.9 billion in 2017 and over \$6 billion in 2018.

- ▲ **Focus on Branded Pipeline:** Key programs (either in late-stage development or under regulatory review) include Abicipar for neovascular (wet) age-related macular degeneration (AMD); Atogepant, an oral CGRP antagonist, for migraine prevention and Bimatoprost SR for glaucoma.

Regulatory applications for Abicipar and Bimatoprost SR are under review in the United States with decision on Bimatoprost and Abicipar expected in the first half of 2020 and mid-2020, respectively. Ubrovelvy (ubrogepant), an oral CGRP antagonist for migraine, was approved by the FDA in December 2019 and launched in January 2020.

Meanwhile, Vraylar gained FDA approval in September 2015 for schizophrenia and bipolar disorder and Viberzi for irritable bowel syndrome-diarrhea in May 2015. Both Vraylar and Viberzi performed above expectation. In May 2019, Vraylar (cariprazine) was approved by the FDA for a new indication — bipolar depression — which expands the drug's eligible patient population, thereby providing an incremental sales opportunity.

The company is also working on expanding the labels of marketed products like Botox and Linzess among others. R&D focus is on core therapeutic areas like eye care, CNS, gastrointestinal and medical aesthetics, which represents more than 80% of Allergan's top line.

- ▲ **Acquisitions to Drive Growth:** Acquisitions form an integral part of Allergan's expansion strategy as the company completed four major acquisitions (Arrow, Specifar, Actavis Group and Warner Chilcott) apart from the Forest and Allergan Inc. deals in the past few years. We view the Arrow acquisition as a positive move — it has helped Allergan expand its footprint in ex-U.S. territories and also boosted Allergan's product offerings and pipeline. The acquisition also provided Allergan with operational expertise and manufacturing capability needed to support its long-term investment in biogenerics.

Allergan enhanced its commercial presence in key European markets and strengthened its foothold in the Greek pharmaceutical market through the May 2011 Specifar acquisition.

The Forest acquisition pushed up Allergan's branded products revenues significantly. The acquisition has led to the creation of a specialty company with a diversified portfolio and a presence in different geographical areas. We are also positive on the Warner Chilcott acquisition which makes strategic and financial sense.

In 2016, Allergan made a string of small buyouts - Tobira Therapeutics, Akarna Therapeutics, Vitae, RetroSense Therapeutics, ForSight VISION 5, Chase Pharmaceuticals Corporation among others.

In 2017, through the accretive acquisitions of LifeCell and Zeltiq, Allergan expanded its medical aesthetics business into regenerative medicine and body sculpting, respectively. In October 2018, Allergan acquired small clinical stage biotech company, Bonti, which makes fast-acting neurotoxin programs and is complementary to Botox.

- ▲ **Cost Saving Initiatives:** In January 2018, Allergan announced that it is laying off over 1,000 employees as part of a cost-saving and restructuring program. The job cuts and other cost-savings measures were completed in 2018 and led to operating cost savings of approximately \$400 million in 2018 at a time when Allergan was facing competitive and generic pressure related to some of its highest revenue generating products.
- ▲ **Biosimilars to Boost Revenues:** Biosimilars represent significant opportunity. In Dec 2011, Allergan and Amgen entered into a collaboration agreement for the worldwide development and commercialization of four oncology antibody biosimilars. The companies market Kanjinti (a biosimilar of Roche's Herceptin) and Mvasi (biosimilar of Roche's Avastin) in both United States and outside the United States. Also, a biosimilar of Roche's Rituxan (ABP 798) is under review with the FDA. The products developed under the collaboration will be sold under a

joint Amgen/Allergan label.

Reasons To Sell:

▼ **Generic Challenges:** Allergan is facing loss of exclusivity for several of its key products. While the first generic versions of Alzheimer's treatment, Namenda XR and Estrace cream were launched in 2018 that of blockbuster dry-eye drug, Restasis, Allergan's second best-selling drug, is expected to be launched soon. In October, a Texas federal district court invalidated four of the six patents covering Restasis, potentially opening doors for early generic competition. Though Restasis patents are scheduled to expire in August 2024, a generic version is expected to be launched soon. Generic versions of Canasa and Rapaflo were launched in December 2018 while that of Delzicol was launched in May 2019, which is hurting sales of these drugs.

Sales are being hurt by loss of exclusivity of key drugs, pricing pressure and currency headwinds. Restasis is also expected to face generic competition this year.

Other products including Bystolic, Gelnique, Saphris and Viibryd are all slated to lose exclusivity over the next few years. The earlier-than-expected entry of generic competition will impact branded segment sales.

▼ **Competition for New Drugs:** Meanwhile, new competition for key growth drivers, Restasis and Linzess, is an investor concern. Shire's (now a part of Takeda) dry eye disease drug, Xiidra, launched in 2017, is posing strong competition for Restasis. Meanwhile, Synergy's (now a part of Bausch Health Companies) Trulance (plecanatide) was launched in 2017 for chronic idiopathic constipation, which is posing competition to Linzess.

Also, there have been concerns regarding possible new competitors to Botox, its largest product. The entry of CGRP antibodies in 2018 may have a negative impact on sales of Botox Therapeutics, mainly for the chronic migraine indication. Amgen/Novartis, Eli Lilly and Teva Pharma's CGRP migraine treatments, Aimovig, Emgality and Ajovy, respectively were all launched in 2018.

Evolus' Jeuveau injection, indicated to improve the appearance of glabellar or frown lines, was launched in the United States in May 2019 and is off to a strong start. It poses strong competition for Botox. Meanwhile, Revance Therapeutics' DaxibotulinumtoxinA for Injection (DAXI), a rival treatment to Botox for the frown lines indication, is under review with the FDA. It has demonstrated longer duration of efficacy compared to Botox in late-stage studies.

▼ **Pipeline Setbacks:** Allergan has been working on expanding its branded business and is investing a lot in its pipeline. However, the company has had its share of pipeline setbacks including complete response letters (CRL) for products like Byvalson and Vraylar, which resulted in a delay in the approval of these products. The company reported disappointing results from the MD-72 study on Vraylar in Aug 2016, which was evaluating the drug as an adjunctive treatment to antidepressant therapy in adults with major depressive disorder (MDD).

A key pipeline setback in 2019 was the failure of Allergan's three acute pivotal studies on depression candidate, rapastinel, which failed to meet the primary endpoints.

Allergan currently has several late-stage and regulatory stage candidates in its pipeline. Additional pipeline and regulatory setbacks would weigh on the stock.

▼ **Global Pricing Pressure:** Global efforts toward health care cost containment are creating pricing pressure on drugs and market access. While many of the company's drugs face pricing pressure in the United States and markets outside the United States, government-mandated pricing actions have led to lowering of generic and patented drug prices. All these factors are creating pressure on sales and profits of pharma companies. Also changes in the U.S. healthcare system as part of the health care reforms could further create pricing pressure.

This pricing pressure is expected to continue and hurt the top line in the future quarters.

Last Earnings Report

Allergan Surpasses Q4 Earnings and Sales Estimates

Allergan beat estimates for both earnings and sales in the fourth quarter.

Adjusted earnings came in at \$5.22 per share, beating the Zacks Consensus Estimate of \$4.61. Earnings rose 21.7% year over year driven by higher revenues and lower tax rate.

Revenues came in at \$4.35 billion, which exceeded the Zacks Consensus Estimate of \$4.1 billion. Revenues rose 6.6% from the year-ago quarter as higher sales of key products like Botox (cosmetic and therapeutics), Juvéderm collection of fillers, Vraylar, Linzess and Lo Loestrin made up for the loss of exclusivity on some brands and currency headwinds.

Quarter Ending **12/2019**

Report Date	Feb 10, 2020
Sales Surprise	6.26%
EPS Surprise	13.23%
Quarterly EPS	5.22
Annual EPS (TTM)	17.64

Segment Discussion

Allergan reports revenues under three segments – U.S. General Medicine, U.S. Specialized Therapeutics and International.

U.S. Specialized net revenues rose 0.7% to \$1.82 billion. Strong demand for its facial aesthetics products, Botox and Juvéderm and Botox Therapeutic was offset by decline in sales of Restasis and CoolSculpting.

In Facial Aesthetics, Botox (cosmetic) recorded sales of \$271.8 million, up 5.3% year over year. Juvéderm collection of fillers rose 5.1% to \$166.4 million. Alloderm sales rose 10.3% to \$104.7 million. CoolSculpting sales of \$53.3 million declined 34.4% year over year.

In Eye Care, while Ozurdex sales rose 7.8% to \$31.6 million, Restasis sales fell 4.9% to \$309.0 million.

Botox Therapeutic revenues were \$463.0 million, up 6.9% year over year.

U.S. General Medicine net revenues were up 15.2% year over year to \$1.61 billion in the reported quarter as strong demand for Vraylar, Viibryd, Linzess and Lo Loestrin was offset by lower sales of drugs that lost exclusivity.

Vraylar sales were \$283.1 million in the quarter, 88.1% higher than the year-ago quarter. Linzess sales rose 12.7% to \$231.2 million. Lo Loestrin sales grew 8.6% to \$156.2 million while Bystolic sales rose 11.8% to \$169.6 million. Viibryd sales were \$114.2 million, up 19.6% from the year-ago quarter.

The International segment recorded net revenues of \$917.7 million, up 8.1% from the year-ago period, excluding the impact of foreign exchange due to growth in Facial Aesthetics, Ozurdex and Botox (therapeutic).

Profits Rise

Adjusted operating income rose 8.4% to \$2.08 billion in the quarter due to higher revenues and lower R&D costs.

Selling, general and administrative expenses increased 1.9% to \$1.16 billion in the quarter, owing to higher marketing spending to support product launches.

Research and development (R&D) expenses declined 4.9% to \$414.8 million.

2019 Results

Full-year 2019 sales rose 1.9% to \$16.1 billion, beating the Zacks Consensus Estimate of \$15.81 billion and ahead of the guided range of \$15.63-\$15.83 billion.

Adjusted earnings of 2019 of \$17.64 per share beat the Zacks Consensus Estimate of \$16.89. Earnings rose 5.7% year over year and were well above the guidance of \$16.55 per share.

Recent News

To Divest Brazikumab & Zenpep for AbbVie Merger – Jan 27

Allergan announced a definitive agreement to divest its mid-stage candidate brazikumab and marketed medicine, Zenpep to AstraZeneca and Nestle, respectively in connection with its pending merger with AbbVie. Brazikumab is in phase IIb/III development for Crohn's Disease and in phase II development for ulcerative colitis, while Zenpep is marketed in the United States for exocrine pancreatic insufficiency due to cystic fibrosis and other conditions.

AstraZeneca and Allergan had a license agreement for brazikumab, which is now terminated and all rights to this monoclonal antibody targeting IL23, go back to AstraZeneca. Financial terms of the transactions were not disclosed

Announces Fourth-Quarter Dividend – Jan 24

Allergan's board declared a quarterly cash dividend on common stock of 74 cents per share for the first quarter of 2020. The amount will be paid out on Mar 13 to shareholders of record as of Feb 14.

Settles Linzess Patent Litigation With Sandoz – Jan 6

Allergan and partner Ironwood announced that they have settled a patent litigation related to Linzess with Sandoz, the generic division of Novartis. Sandoz had filed an abbreviated new drug application, seeking approval for a generic version of Linzess in the United States. Per the settlement terms, Sandoz will be able to market the generic version of Linzess, beginning Feb 5, 2030, subject to FDA approval.

Valuation

Allergan's shares are up 5.1% in the year-to-date period and 43.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are up 6.3% and 2.3% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 2.7% and 3.9%, respectively.

The S&P 500 Index is up 4.2% in the year-to-date period and 21.0% in the past year.

The stock is currently trading at 11.76X forward 12-month earnings per share which compares to 9.87X for the Zacks sub-industry, 21.53X for the Zacks sector and 19.27X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.21X and as low as 6.85X, with a 5-year median of 12.18X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$221 price target reflects 12.9X forward 12-month earnings per share.

The table below shows summary valuation data for AGN

Valuation Multiples - AGN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	11.76	9.87	21.53	19.27
	5-Year High	20.21	16.2	21.53	19.34
	5-Year Low	6.85	6.54	15.83	15.18
	5-Year Median	12.18	9.82	18.9	17.47
P/S F12M	Current	4.13	1.68	2.86	3.55
	5-Year High	7.17	4.35	3.83	3.55
	5-Year Low	2.46	1.19	2.45	2.54
	5-Year Median	4.19	1.97	2.96	3
P/B TTM	Current	1.13	1.41	4.62	4.32
	5-Year High	2.98	3.72	5.04	4.42
	5-Year Low	0.62	0.87	3.44	2.85
	5-Year Median	1.06	1.34	4.31	3.62

As of 2/11/2019

Industry Analysis Zacks Industry Rank: Top 41% (105 out of 254)



Top Peers

Pfizer Inc. (PFE)	Outperform
Bausch Health Cos Inc. (BHC)	Neutral
Biogen Inc. (BIIB)	Neutral
Eli Lilly and Company (LLY)	Neutral
Novartis AG (NVS)	Neutral
Roche Holding AG (RHHBY)	Neutral
Sanofi (SNY)	Neutral
Teva Pharmaceutical Industries Ltd. (TEVA)	Neutral

Industry Comparison Industry: Medical - Generic Drugs				Industry Peers		
	AGN Neutral	X Industry	S&P 500	BHC Neutral	NVS Neutral	PFE Outperform
VGM Score	A	-	-	A	B	D
Market Cap	65.98 B	405.32 M	24.17 B	9.93 B	225.12 B	210.79 B
# of Analysts	8	4	13	9	5	4
Dividend Yield	1.47%	0.00%	1.77%	0.00%	1.88%	3.99%
Value Score	B	-	-	A	B	B
Cash/Price	0.07	0.25	0.04	0.08	0.05	0.04
EV/EBITDA	102.54	-1.23	13.89	75.91	15.13	13.01
PEG Ratio	1.79	1.19	2.05	0.58	2.16	3.11
Price/Book (P/B)	1.13	3.14	3.27	3.88	4.05	3.22
Price/Cash Flow (P/CF)	5.53	5.05	13.60	2.29	12.59	9.88
P/E (F1)	11.75	7.23	19.00	6.28	17.25	13.80
Price/Sales (P/S)	4.10	3.00	2.66	1.17	4.74	4.07
Earnings Yield	8.51%	-8.40%	5.26%	15.94%	5.80%	7.25%
Debt/Equity	0.40	0.07	0.71	9.17	0.40	0.55
Cash Flow (\$/share)	36.32	-0.17	6.89	12.32	7.80	3.86
Growth Score	A	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	3.87%	3.58%	10.85%	-19.56%	0.76%	8.48%
Proj. EPS Growth (F1/F0)	-2.98%	2.36%	7.22%	2.36%	8.70%	-6.44%
Curr. Cash Flow Growth	-4.50%	-0.48%	8.88%	-1.15%	4.27%	-12.32%
Hist. Cash Flow Growth (3-5 yrs)	35.89%	6.89%	8.36%	0.85%	7.11%	1.24%
Current Ratio	1.74	2.96	1.22	1.15	1.04	0.90
Debt/Capital	28.52%	7.42%	42.90%	90.16%	28.42%	35.53%
Net Margin	NA%	-52.46%	11.81%	NA	24.73%	NA
Return on Equity	9.82%	-42.36%	16.98%	56.19%	23.39%	27.23%
Sales/Assets	0.17	0.29	0.54	0.26	0.39	0.32
Proj. Sales Growth (F1/F0)	%	2.88%	4.06%	NA	6.74%	NA
Momentum Score	A	-	-	B	A	B
Daily Price Chg	0.67%	0.00%	0.45%	-0.07%	0.83%	0.74%
1 Week Price Chg	5.58%	4.99%	2.47%	2.62%	1.40%	2.18%
4 Week Price Chg	4.39%	4.16%	0.95%	-1.23%	4.08%	-4.94%
12 Week Price Chg	8.51%	13.94%	5.05%	-0.14%	8.66%	1.14%
52 Week Price Chg	44.81%	-15.85%	16.18%	11.17%	10.56%	-9.03%
20 Day Average Volume	0	310,226	1,999,386	0	2,084,646	0
(F1) EPS Est 1 week change	0.81%	0.00%	0.00%	0.00%	0.18%	0.00%
(F1) EPS Est 4 week change	0.96%	0.00%	0.00%	-0.17%	0.46%	6.70%
(F1) EPS Est 12 week change	0.91%	0.00%	-0.18%	-1.10%	-1.15%	7.67%
(Q1) EPS Est Mthly Chg	10.42%	0.00%	0.00%	-1.68%	NA	NA

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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