

Endo International plc (ENDP)

\$3.93 (As of 03/13/20)

Price Target (6-12 Months): **\$6.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/28/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: F

Momentum: D

Summary

Endo reported better-than-expected results for the fourth quarter of 2019, wherein it beat on both earnings and sales. However, the decline in revenues due to competitive pressure in the generic pharmaceuticals segment is a concern. Endo's efforts to revive its business are encouraging. Xiaflex's performance has been solid on higher demand in both Peyronie's disease and Dupuytren's contracture. The Sterile Injectables segment also boosted the top line, driven by continued strong growth in Vasostrict and Adrenalin as well as Aplisol. The pipeline progress has been impressive too. However, it has been embroiled in various opioid litigations lately, which affected its share price. Shares of the company have underperformed the industry in the past year.

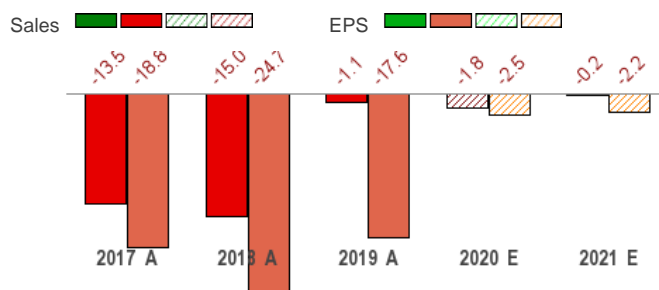
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$9.10 - \$1.97
20 Day Average Volume (sh)	7,798,967
Market Cap	\$891.5 M
YTD Price Change	-16.2%
Beta	1.30
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Drugs
Zacks Industry Rank	Top 24% (60 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	29.8%
Last Sales Surprise	5.3%
EPS F1 Est- 4 week change	1.8%
Expected Report Date	NA
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	698 E	719 E	752 E	799 E	2,856 E
2020	703 E	698 E	708 E	747 E	2,862 E
2019	720 A	700 A	729 A	765 A	2,914 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.52 E	\$0.56 E	\$0.61 E	\$0.71 E	\$2.27 E
2020	\$0.51 E	\$0.54 E	\$0.59 E	\$0.69 E	\$2.32 E
2019	\$0.53 A	\$0.52 A	\$0.60 A	\$0.74 A	\$2.38 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 03/13/2020. The reports text is as of 03/16/2020.

Overview

Endo International plc is a global specialty pharmaceutical company, which is focused on branded and generic pharmaceuticals. The company uses a differentiated operating model based on a lean and nimble structure, the rational allocation of capital, and an emphasis on high-value research and development (R&D) targets.

During the first quarter of 2019, Endo changed the names of its reportable segments.: (1) Branded Pharmaceuticals, (2) Sterile Injectables (3) Generic Pharmaceuticals (4) International Pharmaceuticals.

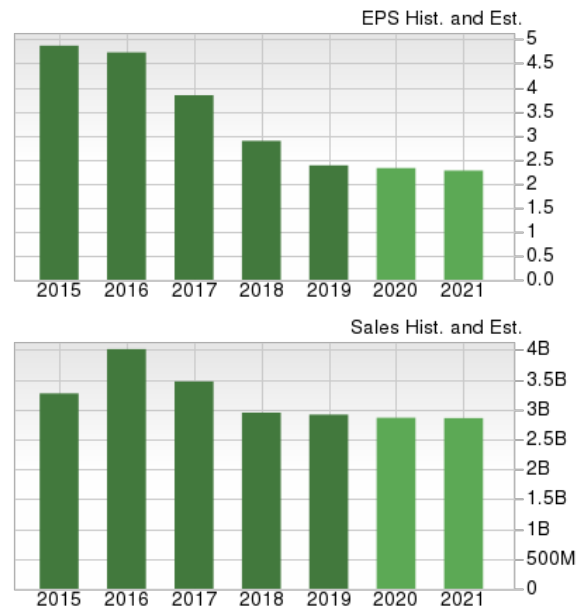
The Branded Pharmaceuticals segment accounted for 29.3% of total revenues in 2019. This segment consists of the company's legacy generics business together with the generic pharmaceuticals products obtained through the September 2015 acquisition of Par Pharmaceutical Holdings, Inc. (Par).

The Sterile Injectables accounted for approximately 36.5% of total revenues in 2019. This segment consists primarily of branded sterile injectable products such as Vasostrict, Adrenalin and Aplisol, among others, and certain generic sterile injectable products, including ertapenem for injection and ephedrine sulfate injection, among others.

The Generic Pharmaceuticals accounted for approximately 30.2% of total revenues in 2019. The portfolio includes a variety of branded prescription products to treat and manage conditions in urology, urologic oncology, endocrinology, pain and orthopedics.

International Pharmaceuticals accounted for 4% of total revenues in 2019. The segment includes a variety of specialty pharmaceutical products sold outside the United States. This segment's key products serve growing therapeutic areas, including attention deficit hyperactivity disorder (ADHD), pain, women's health and oncology.

In 2019, total revenues came in at \$2.9 billion, down 1% from 2018.



Reasons To Buy:

- ▲ **Flagship Product, Xiaflex, Performing Well:** Xiaflex's performance has been solid driven by increased demand in both Peyronie's disease and Dupuytren's contracture. The company's efforts to market the drug for both the indications is yielding results. Per the company, Xiaflex is the first and only FDA-approved non-surgical treatment for PD.
- ▲ **Progress With CCH BLA:** In the third quarter of 2019, Endo submitted a Biologics License Application (BLA) to the FDA for collagenase clostridium histolyticum (CCH) to treat cellulite in the buttocks. The submission is based on positive results from two identical phase III RELEASE studies. The FDA accepted the BLA for review. The agency set a Prescription Drug User Fee Act (PDUFA) or target action date of Jul 6, 2020. A potential approval of CCH should boost Endo's top line, given its wide market potential.
- ▲ **Sterile Injectables Business Performing Well:** Strong performance from this business has boosted Endo's top line. Revenues are being driven by continued growth of Adrenalin and Vasostrict. The launch of the authorized generic of Invanz has further boosted sales. The business is poised to become Endo's core business.
- ▲ **Prioritizing R&D Efforts:** Endo has centralized and streamlined its global supply chain, quality and compliance organization in order to create a more cohesive and efficient structure to support both its generics and branded businesses. The company restructured its corporate functions as well as its branded and generic pharmaceutical R&D functions. Endo also discontinued approximately 85 generic products that were not significant contributors. A leaner structure will help the beleaguered company focus better on core areas.

We are impressed by Endo's growth-by-acquisition strategy. The company's efforts to prioritize its R&D projects bode well.

Reasons To Sell:

- ▼ **Share Price Performance:** Endo's stock has underperformed the industry in the past year. The company has been embroiled in various litigations related to opioid drugs of late, which has affected its share price. A couple of cases have been settled recently but the company still has many pending litigations related to opioid drugs.
- ▼ **Stiff Competition:** The company faces stiff competition from other generic drug manufacturers, brand name pharmaceutical companies through authorized generics, existing brand equivalents and manufacturers of therapeutically similar drugs. Major competitors in the generics market, including Teva Pharmaceutical, Mylan, Sandoz (a division of Novartis AG) and Amneal Pharmaceuticals, Inc. (Amneal) among others.
- ▼ **Slowdown in Generic Business:** Generics base business plummeted significantly due to the loss of marketing exclusivity for the first-to-file products- the generic version of Zetia (ezetimibe tablets) and the generic version of Seroquel XR (quetiapine extended-release (ER) tablets) both of which were launched in fourth-quarter 2016. Moreover, the base business is facing competitive pressures. Product discontinuances and pricing pressure from increased competition impacted the generic base business.

Endo's Generics base business continues to be under pressure given the challenging competitive landscape and pricing pressures.

Last Earnings Report

Endo's Earnings & Revenues Trump Estimates in Q4

Endo reported better-than-expected results for fourth-quarter 2019.

The company's earnings of 74 cents easily beat the Zacks Consensus Estimate of 57 cents in the reported quarter. However, earnings came in lower by a penny from the year-ago quarter's 75 cents.

Revenues came in at \$764.8 million in the quarter, surpassing the Zacks Consensus Estimate of \$726.7 million. The revenue figure, however, declined 3% from the year-ago quarter. This decrease primarily resulted from competitive pressure in the Generic Pharmaceuticals segment and the Established Products portfolio of the Branded Pharmaceuticals segment. However, this was partially offset by continued solid growth in the Sterile Injectables segment and the Specialty Products portfolio of the Branded Pharmaceuticals segment.

Quarter Ending **12/2019**

Report Date	Feb 26, 2020
Sales Surprise	5.25%
EPS Surprise	29.82%
Quarterly EPS	0.74
Annual EPS (TTM)	2.39

Quarterly Highlights

Endo has four reportable business segments — Branded Pharmaceuticals, Generic Pharmaceuticals, Sterile Injectables and International Pharmaceuticals.

Branded Pharmaceuticals revenues were \$226 million, down from the year-ago quarter's \$230 million, due to the prevalent generic competition in the Established Products portfolio. Specialty Products revenues increased 15% to \$149 million on continued strong performance of Xiaflex. Sales of Xiaflex rose 27% to \$102 million, primarily attributable to demand growth in both Peyronie's Disease and Dupuytren's Contracture indications, driven by continued commercial execution and investment in promotional activities.

In November 2019, the FDA accepted the company's original Biologics License Application (BLA) for its Collagenase Clostridium Histolyticum (CCH) product, for the treatment of cellulite in the buttocks. The target action date for the BLA has been set for Jul 6, 2020.

Sterile Injectables revenues came in at \$285 million, up 10% year over year, aided by robust growth of Adrenalin and Vasostriect.

Generic Pharmaceuticals recorded sales of \$226 million in the fourth quarter, down 14% due to competitive pressure on commoditized generic products. Nevertheless, the contribution of certain recent product launches partially negated the decline.

International Pharmaceuticals revenues came in at \$29 million, marking a decline of 16% year on year.

2019 Results

Revenues came in at \$2.9 billion for full-year 2019, down 1% from 2018. Earnings per share for 2019 came in at \$2.38 compared with the prior year's \$2.89.

2020 Guidance

Endo expects revenues between \$2.72 billion and \$2.92 billion for 2020. The guidance assumes further erosion and competitive pressure for established brands. The company anticipates earnings from continuing operations to be \$2.15-\$2.40.

Recent News

Settles Opioid Investigation with Oklahoma — Jan 10

Endo announced that it has executed a settlement agreement with the state of Oklahoma related to a litigation that alleged the company's involvement in opioid abuse crisis in the state. The company has agreed to pay \$8.75 million to the state in connection with the settlement.

Launches Generic Version of Afinitor — Dec 10

Endo announced that one of its operating companies, Par Pharmaceutical (Par), launched the generic edition of Afinitor (everolimus) in 2.5 mg, 5 mg and 7.5 mg tablets.

BLA for Cellulite Treatment Accepted by FDA — Nov 19

Endo announced that the FDA has accepted the original Biologics License Application (BLA) for review of collagenase clostridium histolyticum (CCH) to treat cellulite in the buttocks.

Implements CEO Succession Plan – Nov 4

Endo announced that Paul V. Campanelli, the president and chief executive officer, plans to retire. Campanelli has been appointed the chairman of the board effective immediately and will also continue to serve as president and chief executive officer until his successor is appointed.

Culmination of Litigation Regarding FDA Compounding Policy- Sep 30

Endo announced the successful culmination of two litigations with the U.S. District Court for the District of Columbia regarding the unlawful compounding of vasopressin from bulk drug substances.

Valuation

Endo's shares are down 33% in the year-to-date period and down 63.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are down 19.7% and 12.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 25.3% while the sector is down 13.8%.

The S&P 500 index is down 15.8% in the year-to-date period and 5.2% in the past year.

The stock is currently trading at 0.31X trailing 12-month sales per share, which compares to 2.57X for the Zacks sub-industry, 2.44X for the Zacks sector and 2.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.95X and as low as 0.18X, with a 5-year median of 0.77X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$6 price target reflects 0.47X trailing 12-month sales per share.

Industry Analysis Zacks Industry Rank: Top 24% (60 out of 253)



Top Peers

United Therapeutics Corporation (UTHR)	Outperform
Allergan plc (AGN)	Neutral
Bausch Health Cos Inc. (BHC)	Neutral
Catalent, Inc. (CTLT)	Neutral
Mallinckrodt public limited company (MNK)	Neutral
Dr. Reddys Laboratories Ltd (RDY)	Neutral
AMNEAL PHARMACEUTICALS, INC. (AMRX)	Underperform
Jazz Pharmaceuticals PLC (JAZZ)	Underperform

Industry Comparison Industry: Medical - Drugs				Industry Peers		
	ENDP Neutral	X Industry	S&P 500	BHC Neutral	MNK Neutral	RDY Neutral
VGM Score	C	-	-	B	A	B
Market Cap	891.46 M	74.18 M	19.05 B	6.63 B	255.99 M	6.44 B
# of Analysts	9	2	13	9	8	2
Dividend Yield	0.00%	0.00%	2.31%	0.00%	0.00%	0.67%
Value Score	A	-	-	A	A	B
Cash/Price	1.63	0.30	0.05	0.44	3.21	0.04
EV/EBITDA	9.21	-1.31	11.57	14.66	-12.69	11.91
PEG Ratio	NA	0.59	1.68	0.39	0.03	NA
Price/Book (P/B)	NA	2.45	2.56	5.83	0.13	3.09
Price/Cash Flow (P/CF)	0.75	10.90	10.18	1.79	0.15	14.40
P/E (F1)	1.35	13.80	14.94	4.26	0.46	27.37
Price/Sales (P/S)	0.31	4.84	2.02	0.77	0.08	2.65
Earnings Yield	59.03%	-20.56%	6.67%	23.46%	219.08%	3.65%
Debt/Equity	-9.70	0.03	0.70	21.71	2.44	0.01
Cash Flow (\$/share)	5.21	-0.60	7.01	10.49	20.20	2.70
Growth Score	F	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	-14.42%	3.93%	10.85%	-19.61%	2.51%	-0.76%
Proj. EPS Growth (F1/F0)	-2.34%	17.70%	5.99%	-0.45%	-25.06%	-13.41%
Curr. Cash Flow Growth	-15.98%	6.45%	6.15%	-14.18%	10.71%	29.21%
Hist. Cash Flow Growth (3-5 yrs)	2.66%	6.77%	8.52%	-4.00%	10.87%	-0.91%
Current Ratio	1.77	3.31	1.24	1.12	1.28	1.81
Debt/Capital	NA%	6.72%	42.57%	95.60%	70.96%	0.81%
Net Margin	-14.50%	-112.83%	11.64%	-20.79%	-31.51%	9.62%
Return on Equity	-84.43%	-67.94%	16.74%	68.06%	27.05%	18.08%
Sales/Assets	0.30	0.31	0.54	0.26	0.31	0.75
Proj. Sales Growth (F1/F0)	-1.80%	5.51%	3.54%	2.63%	-9.05%	8.93%
Momentum Score	D	-	-	C	F	D
Daily Price Chg	11.33%	0.51%	8.21%	15.91%	-12.64%	3.60%
1 Week Price Chg	-16.67%	0.00%	-0.67%	-5.29%	-31.54%	5.90%
4 Week Price Chg	-36.61%	-25.50%	-22.67%	-31.46%	-38.34%	-15.25%
12 Week Price Chg	-22.64%	-21.39%	-20.46%	-37.12%	-19.79%	-4.24%
52 Week Price Chg	-53.21%	-44.13%	-10.79%	-22.12%	-86.18%	0.34%
20 Day Average Volume	7,798,967	207,046	3,061,271	6,505,621	9,971,033	157,236
(F1) EPS Est 1 week change	0.63%	0.00%	0.00%	0.05%	-2.05%	0.00%
(F1) EPS Est 4 week change	1.82%	0.00%	-0.32%	-1.61%	-2.82%	0.00%
(F1) EPS Est 12 week change	0.28%	0.00%	-0.65%	-2.58%	-2.32%	-5.96%
(Q1) EPS Est Mthly Chg	-6.59%	0.00%	-0.62%	-4.61%	1.32%	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	A
Growth Score	F
Momentum Score	D
VGM Score	C

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.

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