Jan 17, 2020

Endo International plc (ENDP)

$6.18 (As of 01/16/20)

Price Target (6-12 Months): **$6.50**

Long Term: 6-12 Months | **Zacks Recommendation:** Neutral
(Since: 05/28/19)
Prior Recommendation: Underperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) 4-Sell
Zacks Style Scores: VGM:C
Value: A | Growth: D | Momentum: F

Summary

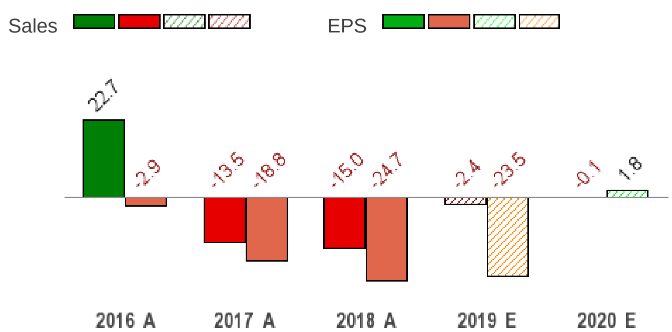
Endo's efforts to revive its business are encouraging. Xiaflex's performance has been solid on higher demand in both Peyronie's disease and Dupuytren's contracture. The Sterile Injectables segment also boosted the top line, driven by continued strong growth in Vasostrict and Adrenalin as well as Aplisol. The pipeline progress is steadily impressive too. The company also submitted a BLA for the collagenase clostridium histolyticum program to treat cellulite. However, it has been embroiled in various opioid litigations lately, which affected its share price. While the recent settlement of a couple of cases related to opioid medication was favorable, the company still has many pending lawsuits. Shares of the company have underperformed the industry in the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$12.49 - $1.97
20 Day Average Volume (sh)	6,243,497
Market Cap	$1.4 B
YTD Price Change	31.8%
Beta	1.41
Dividend / Div Yld	$0.00 / 0.0%
Industry	Medical - Drugs
Zacks Industry Rank	Top 47% (119 out of 254)
Last EPS Surprise	13.2%
Last Sales Surprise	3.1%
EPS F1 Est- 4 week change	-3.1%
Expected Report Date	02/27/2020
Earnings ESP	0.0%
P/E TTM	2.6
P/E F1	2.8
PEG F1	NA
P/S TTM	0.5

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	711 E	713 E	727 E	748 E	2,874 E
2019	720 A	700 A	729 A	726 E	2,876 E
2018	701 A	715 A	745 A	786 A	2,947 A

EPS Estimates

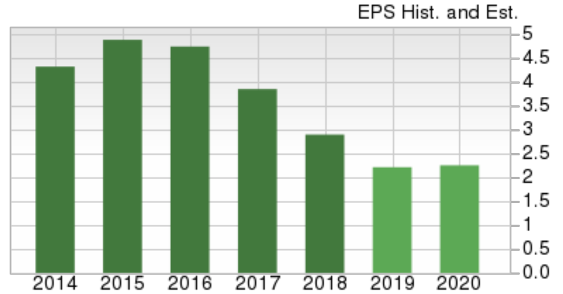
	Q1	Q2	Q3	Q4	Annual*
2020	$0.55 E	$0.55 E	$0.57 E	$0.61 E	$2.25 E
2019	$0.53 A	$0.52 A	$0.60 A	$0.57 E	$2.21 E
2018	$0.67 A	$0.76 A	$0.71 A	$0.75 A	$2.89 A

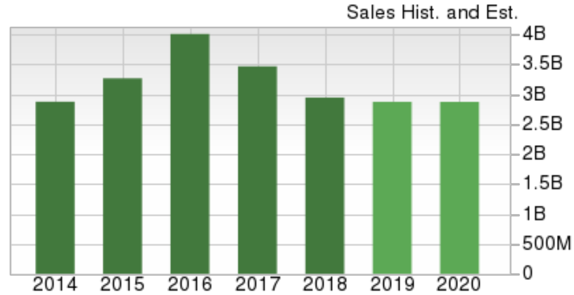
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

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.





The company has four reportable business segments: (1) U.S. Generic Pharmaceuticals, (2) U.S. Branded - Specialty & Established Pharmaceuticals, (3) U.S. Branded - Sterile Injectables and (4) International Pharmaceuticals.

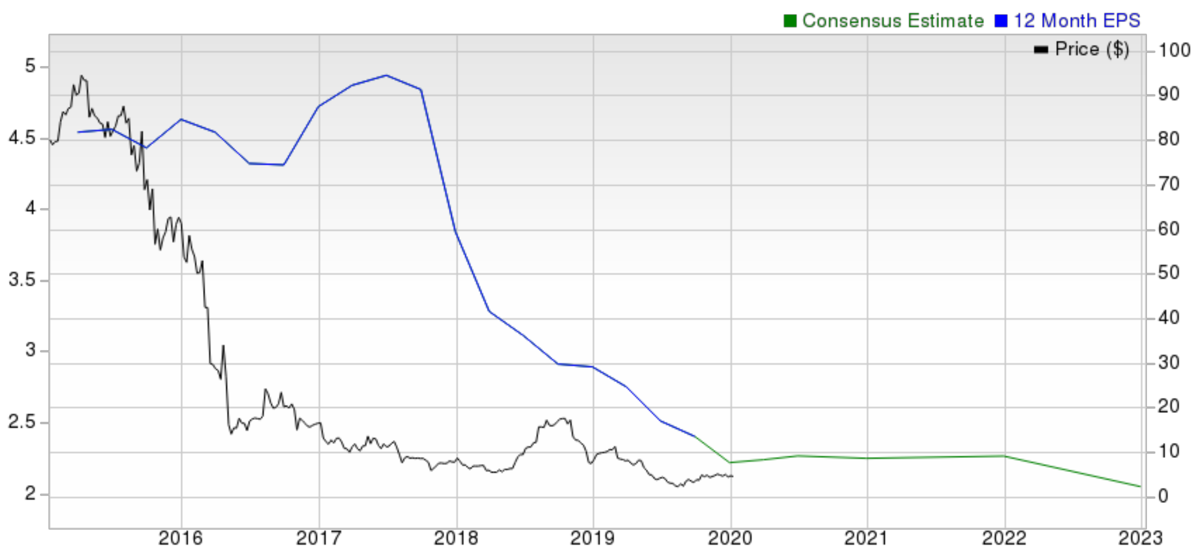
The U.S. Generic Pharmaceuticals segment accounted for 34.3% of total revenues in 2018. This segment consists of the company's legacy generics business together with the generic pharmaceuticals products obtained through the September 2015 acquisition of Par Pharmaceutical Holdings, Inc. (Par).

The U.S. Branded - Sterile Injectables accounted for approximately 31.5% of total revenues in 2018. 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 U.S. Branded - Specialty & Established Pharmaceuticals accounted for approximately 29.3% of total revenues in 2018. 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 4.9% of total revenues in 2018. 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 2018, total revenues came in at $2.9 billion, down 15% from 2017.



Reasons To Buy:

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

- **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. The drug recorded a 24% growth rate in 2018 and performance has been strong in the year so far.

- **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.

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.

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

- **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.

Last Earnings Report

Endo Q3 Earnings & Revenues Beat Estimates

Quarter Ending	09/2019
Report Date	Nov 04, 2019
Sales Surprise	3.09%
EPS Surprise	13.21%
Quarterly EPS	0.60
Annual EPS (TTM)	2.40

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

The company's earnings of 60 cents in the reported quarter easily beat the Zacks Consensus Estimate of 53 cents. However, earnings declined from 71 cents in the year-ago quarter.

Revenues came in at $729.4 million in the quarter, surpassing the Zacks Consensus Estimate of $707.6 million but decreasing 2% from the year-ago quarter. The year-over-year decrease was primarily attributable to competitive pressure in the Generic Pharmaceuticals segment and the Established Products portfolio of the Branded Pharmaceuticals segment. Nevertheless, strong growth in the Sterile Injectables segment and the Specialty Products portfolio of the Branded Pharmaceuticals segment partially offset the decline.

Quarterly Highlights

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

Branded Pharmaceuticals revenues were $217 million, down from $220 million in the year-ago quarter due to the ongoing generic competition in the Established Products portfolio. Specialty Products revenues increased 18% to $132 million, driven by the continued strong performance of Xiaflex. Sales of Xiaflex rose 29% to $83 million, owing to higher demand in Peyronie's Disease and Dupuytren's Contracture indications, driven by continued commercial execution and investment in promotional activities.

During the reported quarter, Endo submitted a Biologics License Application to the FDA for its Collagenase Clostridium Histolyticum product for the treatment of cellulite.

Sterile Injectables revenues came in at $264 million, up 11% year over year, driven by strong growth of Adrenalin, Vasostrict and Aplisol.

Generic Pharmaceuticals recorded sales of $218 million in the quarter, down 15% due to competitive pressure in the generic business. Nevertheless, the contribution of certain product launches including, colchicine tablets (the authorized generic of Colcrys) partially offset the decline.

International Pharmaceuticals revenues were $30 million, flat year over year.

2019 Outlook

Endo expects revenues between $2.86 billion and $2.89 billion for 2019 compared to the previous guidance of $2.76-$2.96 billion. The company anticipates earnings from continuing operations to be $2.10-$2.25 compared to the previous guidance of $2.00-$2.25 per share.

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 36.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry is up 0.3% and the sector is up 4.3%.

The S&P 500 index is up 22.3% in the past year.

The stock is currently trading at 0.48X trailing 12-month sales per share, which compares to 3.30X for the Zacks sub-industry, 3.17X for the Zacks sector and 3.56X for the S&P 500 index.

Over the past five years, the stock has traded as high as 6.46X and as low as 0.17X, with a 5-year median of 0.77X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $6.50 price target reflects 0.50X trailing 12-month sales per share.

Industry Analysis **Zacks Industry Rank:** Top 47% (119 out of 254)

Top Peers

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

Industry Comparison Industry: Medical - Drugs

	ENDP Neutral	X Industry	S&P 500	Industry Peers BHC Neutral	MNK Neutral	RDY Neutral
VGM Score	C	-	-	B	A	A
Market Cap	1.40 B	131.74 M	24.61 B	10.48 B	440.65 M	6.84 B
# of Analysts	9	2	13	9	9	1
Dividend Yield	0.00%	0.00%	1.74%	0.00%	0.00%	0.64%
Value Score	A	-	-	A	A	C
Cash/Price	1.69	0.28	0.04	0.08	1.87	0.06
EV/EBITDA	24.67	-2.53	14.24	77.21	-1.76	12.82
PEG Ratio	NA	1.15	2.07	0.61	0.06	NA
Price/Book (P/B)	NA	3.38	3.38	4.10	0.14	3.14
Price/Cash Flow (P/CF)	0.99	10.68	13.75	2.42	0.28	15.29
P/E (F1)	2.67	15.16	19.09	6.62	0.77	29.68
Price/Sales (P/S)	0.48	6.07	2.68	1.23	0.14	2.90
Earnings Yield	36.41%	-14.52%	5.24%	15.09%	130.73%	3.37%
Debt/Equity	-12.72	0.03	0.72	9.17	1.64	0.10
Cash Flow ($/share)	6.27	-0.58	6.94	12.32	18.42	2.70
Growth Score	D	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	-12.71%	8.54%	10.56%	-19.56%	3.37%	-5.32%
Proj. EPS Growth (F1/F0)	1.78%	17.26%	7.57%	2.61%	-20.23%	-15.24%
Curr. Cash Flow Growth	-24.61%	13.26%	14.73%	-1.15%	-0.48%	29.21%
Hist. Cash Flow Growth (3-5 yrs)	10.20%	8.38%	9.00%	0.85%	36.60%	-0.91%
Current Ratio	1.59	3.75	1.24	1.15	1.07	1.96
Debt/Capital	NA%	7.89%	42.99%	90.16%	62.11%	9.03%
Net Margin	-16.89%	-110.57%	11.14%	-7.25%	-111.44%	16.20%
Return on Equity	-99.08%	-66.96%	17.16%	56.19%	24.36%	18.44%
Sales/Assets	0.29	0.29	0.55	0.26	0.30	0.72
Proj. Sales Growth (F1/F0)	-0.05%	8.86%	4.16%	3.08%	-7.88%	9.63%
Momentum Score	F	-	-	F	A	B
Daily Price Chg	5.28%	0.00%	0.89%	2.41%	16.70%	-0.79%
1 Week Price Chg	-2.88%	0.35%	0.39%	-6.02%	-5.65%	1.99%
4 Week Price Chg	21.65%	6.15%	2.65%	-0.50%	38.26%	1.68%
12 Week Price Chg	41.74%	10.48%	7.55%	31.29%	73.51%	5.36%
52 Week Price Chg	-37.26%	-15.11%	22.12%	29.18%	-73.67%	10.62%
20 Day Average Volume	6,243,497	196,135	1,536,375	2,493,590	6,486,251	135,648
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.06%	0.00%	0.00%	-0.74%	0.52%	-7.95%
(F1) EPS Est 12 week change	-4.06%	0.74%	-0.40%	2.15%	-5.29%	-32.52%
(Q1) EPS Est Mthly Chg	-3.51%	0.00%	0.00%	-0.17%	4.44%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Momentum Score	F
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.

Disclosures

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