

Endo International plc (ENDP)

\$3.60 (As of 07/16/20)

Price Target (6-12 Months): **\$3.75**

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:A

Value: A

Growth: A

Momentum: C

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 continues to gain traction, driven by continued strong growth in Vasostrict and Adrenalin. The pipeline progress has been impressive. The FDA approval of the Collagenase Clostridium Histolyticum product for the treatment of cellulite in the buttocks will generate an additional revenue for Endo. However, the generics business has been weak owing to competitive and pricing pressure. Endo withdrew its annual guidance due to the ongoing pandemic owing to the coronavirus outbreak. Moreover, Endo was embroiled in various opioid litigations, which affected its share price. Shares of the company have underperformed the company in the past year.

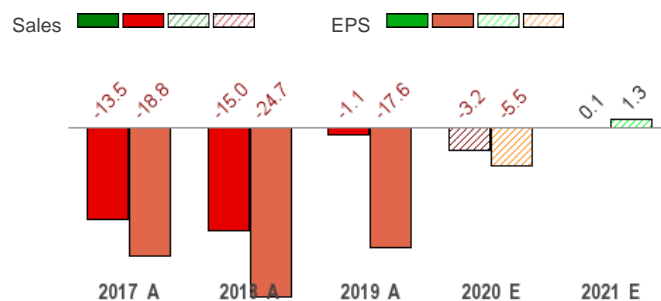
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$7.10 - \$1.97
20 Day Average Volume (sh)	6,273,799
Market Cap	\$825.8 M
YTD Price Change	-23.4%
Beta	1.54
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Drugs
Zacks Industry Rank	Top 41% (104 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	75.9%
Last Sales Surprise	15.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/06/2020
Earnings ESP	-1.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	705 E	714 E	733 E	765 E	2,824 E
2020	820 A	653 E	637 E	696 E	2,822 E
2019	720 A	700 A	729 A	765 A	2,914 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.54 E	\$0.54 E	\$0.57 E	\$0.65 E	\$2.28 E
2020	\$0.95 A	\$0.37 E	\$0.38 E	\$0.55 E	\$2.25 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.

P/E TTM	1.3
P/E F1	1.6
PEG F1	NA
P/S TTM	0.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/16/2020. The reports text is as of 07/17/2020.

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.

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.

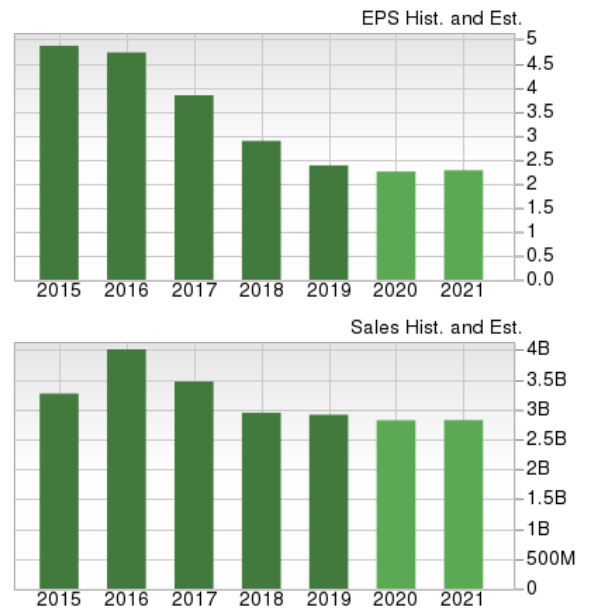
The Branded Pharmaceuticals segment accounted for 29.3% of total revenues in 2019. This segment consists of the company's legacy generics business together with the generic pharmaceuticals products obtained through the September 2015 acquisition of Par Pharmaceutical Holdings, Inc. (Par).

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.

▲ **Approval of Qwo:** The FDA approval of collagenase clostridium histolyticum-aas for the treatment of moderate to severe cellulite in the buttocks of adult women under the brand name, Qwo is a significant boost for the company. Per the company, Qwo is the first FDA-approved injectable treatment for cellulite. Qwo is expected to be available throughout the United States at aesthetic healthcare practitioners' offices starting spring 2021.

Cellulite is a localized alteration in the contour of the skin that has been reported in more than 90% of post-pubertal females and affects women of all races and ethnicities. Per the company, when injected into the treatment area, QWO releases the fibrous septae enzymatically by specifically targeting types 1 and 3 collagens. This, in turn, is expected to result in smoothing of the skin and an improved appearance of cellulite. The approval will provide Endo with an additional source of revenue, given the wide market potential.

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

▲ **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.
- ▼ **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.
- ▼ **Unfavorable Debt Profile:** As of Mar 31, 2020, the company's debt to total capital ratio stood at 109.6, which compares unfavorably to the industry's 52.4. A higher ratio indicates greater financial risk. Moreover, it might not be able to service such high levels of debt in case of insolvency.

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

Last Earnings Report

Endo Q1 Earnings Beat on Coronavirus-Led Stockpiling

The company's earnings of 95 cents easily beat the Zacks Consensus Estimate of 54 cents in the reported quarter and rose from the year-ago quarter's 60 cents.

Revenues came in at \$820.4 million in the quarter, surpassing the Zacks Consensus Estimate of \$714 million and increasing 14% from the year-ago quarter. The increase was attributable to strong growth in the Sterile Injectables segment and the Specialty Products portfolio of the Branded Pharmaceuticals segment. Recent product launches in the Generic Pharmaceuticals segment also boosted performance. Moreover, sales benefited from higher patient demand and increased customer inventory purchasing due to the COVID-19 pandemic. However, continued competitive pressure in the Established Products portfolio of the Branded Pharmaceuticals segment partially offset the increase.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	14.97%
EPS Surprise	75.93%
Quarterly EPS	0.95
Annual EPS (TTM)	2.81

Quarterly Highlights

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

Branded Pharmaceuticals revenues were \$204 million, flat year over year as growth in the segment's Specialty Products portfolio was offset by the ongoing generic competition in the segment's Established Products portfolio. Specialty Products revenues increased 17% year over year to \$134 million, primarily driven by the strong performance of Xiaflex. Sales of Xiaflex grew 30% to \$89 million owing to demand growth in both Peyronie's Disease and Dupuytren's Contracture indications, driven by continued commercial execution and investments 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. Endo is moving its anticipated product launch to first-quarter 2021, pending FDA approval, due to the COVID-19 pandemic.

Sterile Injectables revenues came in at \$336 million, up 25% year over year.

The upside was led by robust growth of Adrenalin and Vasostrict, resulting primarily from increased sales volume toward the end of the quarter due to higher utilization mainly to treat patients infected with COVID-19, increased channel inventory stocking and price.

Generic Pharmaceuticals reported sales of \$251 million in the quarter, up 15% on recent product launches and accelerated prescription fulfillment arising from COVID-19 concerns.

International Pharmaceuticals revenues came in at \$29 million, flat year over year.

2020 Guidance

The company withdrew its earlier provided guidance (revenues of \$2.72-\$2.92 billion and earnings of \$2.15-\$2.40 per share) due to uncertainties regarding the continued impact of the COVID-19 pandemic.

For the second quarter, Endo anticipates the Sterile Injectables segment's revenues to increase sequentially owing to higher utilization and channel inventory stocking. However, revenues from Branded Pharmaceuticals and Generic Pharmaceuticals are estimated to decline sequentially.

Recent News

FDA Approval for Cellulite Treatment – July 6

Endo announced that it obtained FDA approval of collagenase clostridium histolyticum-aes for the treatment of moderate to severe cellulite in the buttocks of adult women under the brand name, Qwo.

Per the company, Qwo is the first FDA-approved injectable treatment for cellulite.

Qwo is expected to be available throughout the United States at aesthetic healthcare practitioners' offices starting spring 2021.

Valuation

Endo's shares are down 23.3% in the year-to-date period and down 7.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are down 5.6% but up 1.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 3% while the sector is up 7.3%.

The S&P 500 index is up 1.1% in the year-to-date period and 10.2% in the past year.

The stock is currently trading at 0.29X trailing 12-month sales per share, which compares to 2.92X for the Zacks sub-industry, 2.85X for the Zacks sector and 3.57X 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 0.71X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$3.75 price target reflects 0.30X trailing 12-month sales per share.

Industry Analysis Zacks Industry Rank: Top 41% (104 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Horizon Therapeutics Public Limited Company (HZNP)	Outperform	1
AMNEAL PHARMACEUTICALS, INC. (AMRX)	Neutral	3
Bausch Health Cos Inc. (BHC)	Neutral	4
Catalent, Inc. (CTLT)	Neutral	3
Jazz Pharmaceuticals PLC (JAZZ)	Neutral	3
Mallinckrodt public limited company (MNK)	Neutral	3
Dr. Reddys Laboratories Ltd (RDY)	Neutral	3
United Therapeutics Corporation (UTHR)	Neutral	3

Industry Comparison Industry: Medical - Drugs				Industry Peers		
	ENDP	X Industry	S&P 500	BHC	MNK	RDY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	A	-	-	A	A	B
Market Cap	825.79 M	124.67 M	22.43 B	6.50 B	242.39 M	9.08 B
# of Analysts	9	3	14	9	8	2
Dividend Yield	0.00%	0.00%	1.82%	0.00%	0.00%	0.50%
Value Score	A	-	-	A	A	C
Cash/Price	2.19	0.27	0.07	0.32	3.78	0.04
EV/EBITDA	9.09	-2.48	13.00	2.39	-12.59	20.97
PEG Ratio	NA	1.12	2.97	0.46	0.03	NA
Price/Book (P/B)	NA	3.47	3.13	8.16	0.13	4.42
Price/Cash Flow (P/CF)	0.69	10.80	12.13	1.75	0.14	14.45
P/E (F1)	1.60	16.92	21.97	4.91	0.49	29.88
Price/Sales (P/S)	0.27	6.21	2.38	0.76	0.08	3.72
Earnings Yield	62.50%	-15.16%	4.35%	20.37%	205.92%	3.36%
Debt/Equity	-11.38	0.01	0.75	0.00	2.50	0.01
Cash Flow (\$/share)	5.21	-0.51	6.94	10.49	20.20	3.79
Growth Score	A	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	-14.71%	6.56%	10.85%	-19.16%	1.99%	4.60%
Proj. EPS Growth (F1/F0)	-5.32%	13.44%	-9.37%	-15.75%	-33.50%	-34.23%
Curr. Cash Flow Growth	-15.98%	2.43%	5.51%	-14.18%	10.71%	40.31%
Hist. Cash Flow Growth (3-5 yrs)	2.66%	6.05%	8.55%	-4.00%	10.87%	5.28%
Current Ratio	2.03	3.69	1.30	1.13	1.46	1.79
Debt/Capital	NA%	6.01%	44.33%	0.00%	71.43%	0.82%
Net Margin	-9.09%	-114.76%	10.59%	-21.96%	-39.56%	11.15%
Return on Equity	-91.00%	-62.98%	15.74%	84.58%	29.14%	19.83%
Sales/Assets	0.31	0.30	0.54	0.27	0.30	0.77
Proj. Sales Growth (F1/F0)	-3.18%	0.00%	-2.44%	-6.27%	-16.59%	0.25%
Momentum Score	C	-	-	C	C	B
Daily Price Chg	0.42%	0.00%	-0.06%	-1.82%	-7.42%	2.10%
1 Week Price Chg	-1.43%	-0.21%	-0.41%	-6.27%	4.12%	-1.65%
4 Week Price Chg	0.42%	-0.14%	1.63%	-8.77%	14.80%	2.87%
12 Week Price Chg	-4.77%	12.67%	15.55%	12.19%	-17.05%	3.88%
52 Week Price Chg	7.63%	-10.93%	-4.26%	-20.74%	-60.25%	43.06%
20 Day Average Volume	6,273,799	309,446	2,236,294	3,156,398	3,613,684	161,370
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.01%	-0.18%	0.00%	0.00%
(F1) EPS Est 12 week change	1.10%	0.00%	-5.24%	-9.49%	-3.42%	1.10%
(Q1) EPS Est Mthly Chg	0.38%	0.00%	0.00%	0.00%	0.00%	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	A
Momentum Score	C
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.

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