

Endo International plc (ENDP)

\$3.09 (As of 08/19/20)

Price Target (6-12 Months): **\$3.25**

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:A

Value: A

Growth: A

Momentum: D

Summary

Endo reported better-than-expected results for the second quarter as the Branded Pharmaceuticals segment performed better than expected as COVID-19-related restrictions and physician office closures began easing throughout the quarter. Moreover, the Sterile Injectables segment delivered strong revenue growth as customers built significant inventories of products used to treat certain COVID-19 patients. 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 additional revenues. However, the generics business has been weak due to competitive and pricing pressure. 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.

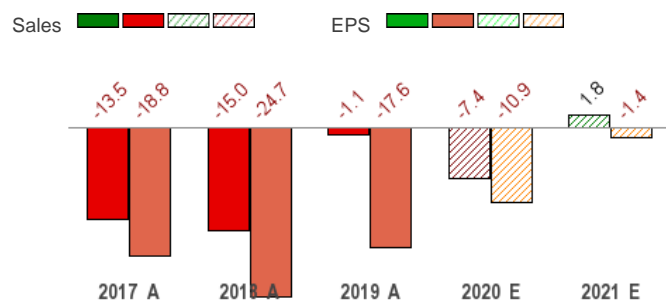
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$7.10 - \$1.97
20 Day Average Volume (sh)	3,756,883
Market Cap	\$710.1 M
YTD Price Change	-34.1%
Beta	1.51
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Drugs
Zacks Industry Rank	Bottom 28% (182 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	85.7%
Last Sales Surprise	7.8%
EPS F1 Est- 4 week change	-5.6%
Expected Report Date	11/02/2020
Earnings ESP	0.0%
P/E TTM	1.1
P/E F1	1.5
PEG F1	NA
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	661 E	672 E	684 E	707 E	2,745 E
2020	820 A	688 A	535 E	642 E	2,697 E
2019	720 A	700 A	729 A	765 A	2,914 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.46 E	\$0.47 E	\$0.51 E	\$0.57 E	\$2.09 E
2020	\$0.95 A	\$0.65 A	\$0.11 E	\$0.40 E	\$2.12 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 08/19/2020. The reports text is as of 08/20/2020.

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.

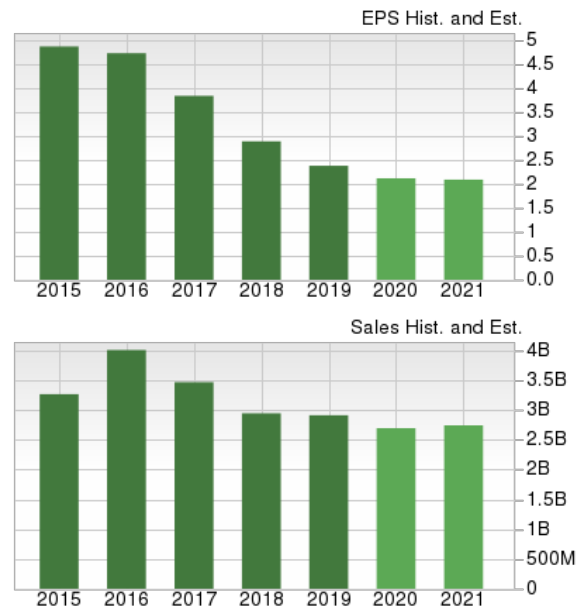
The Branded Pharmaceuticals segment accounted for 29.3% of total revenues in 2019. This segment consists of the company's legacy generics business together with the generic pharmaceuticals products obtained through the September 2015 acquisition of Par Pharmaceutical Holdings, Inc. (Par).

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 Jun 30, 2020, the company's debt to total capital ratio stood at 109.64 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 Q2 Earnings & Sales Beat

Endo reported earnings of 65 cents easily beat the Zacks Consensus Estimate of 35 cents in the reported quarter and rose from the year-ago quarter's 60 cents.

Revenues came in at \$687.6 million in the quarter, surpassing the Zacks Consensus Estimate of \$638 million but decreasing 2% from the year-ago quarter. The decline was attributed to lower Branded Pharmaceuticals segment revenues due to reduced physician office activity and patient visits compared to the prior-year quarter because of the COVID-19 pandemic. The decrease was partially offset by an increase in Sterile Injectables segment revenues due to significant channel inventory stocking of products used to treat certain patients infected with COVID-19.

Quarter Ending 06/2020

Report Date	Aug 05, 2020
Sales Surprise	7.77%
EPS Surprise	85.71%
Quarterly EPS	0.65
Annual EPS (TTM)	2.94

Quarterly Highlights

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

Branded Pharmaceuticals revenues were \$129.5 million, down 38% year over year due to reduced volumes caused by the COVID-19 pandemic.

Specialty Products revenues decreased 45% to \$68.7 million. Sales of Xiaflex decreased 55% to \$33.8 million as a result of physician office closures and a decline in patients electing to be treated because of the COVID-19 pandemic. Established Products revenues decreased 28% to \$60.8 million due to competitive pressures and a temporary product supply disruption, which has been resolved.

Last month, the FDA approved QWO (collagenase clostridium histolyticum-aaes) for the treatment of moderate-to-severe cellulite in the buttocks of adult women. QWO is the first FDA-approved injectable treatment for cellulite and expected to be available throughout the United States beginning spring 2021.

Sterile Injectables revenues came in at \$319 million, up 31% year over year, driven by significant channel inventory stocking of Vasostriect in anticipation of treating vasodilatory shock in patients infected with COVID-19.

Generic Pharmaceuticals reported sales of \$216 million in the quarter, down 1% due to continued competitive pressures on certain key products, which were partially offset by recent product launches.

International Pharmaceuticals revenues came in at \$23 million, down 20% year over year.

2020 Guidance

Revenues in the third quarter are projected to be \$515-\$550 million. Adjusted earnings per share are estimated to be 8-13 cents.

Revenues in 2020 are projected to be \$2.60-\$2.70 billion. Adjusted earnings per share are estimated to be \$2-\$2.15.

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 36% in the year-to-date period but up 1.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are down 5.2% but up 0.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 1.7% while the sector is up 8.1%.

The S&P 500 index is up 4.7% in the year-to-date period and 15.7% in the past year.

The stock is currently trading at 0.28X trailing 12-month sales per share, which compares to 2.78X for the Zacks sub-industry, 2.82X for the Zacks sector and 3.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.74X and as low as 0.18X, with a 5-year median of 0.69X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$3.25 price target reflects 0.27X trailing 12-month sales per share.

Industry Analysis Zacks Industry Rank: Bottom 28% (182 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Hikma Pharmaceuticals Plc (HKMPF)	Outperform	2
AMNEAL PHARMACEUTICALS, INC. (AMRX)	Neutral	3
Bausch Health Cos Inc. (BHC)	Neutral	3
Catalent, Inc. (CTLT)	Neutral	2
IPSEN SA ADR (IPSEY)	Neutral	3
Jazz Pharmaceuticals PLC (JAZZ)	Neutral	3
Recordati Industria Chimica E Farmaceutica S.P.A. (RCDTF)	Neutral	2
Dr. Reddys Laboratories Ltd (RDY)	Neutral	2

Industry Comparison Industry: Medical - Drugs				Industry Peers		
	ENDP	X Industry	S&P 500	BHC	IPSEY	RDY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	2
VGM Score	A	-	-	B	A	B
Market Cap	710.13 M	143.72 M	23.61 B	5.99 B	NA	9.88 B
# of Analysts	9	3	14	8	1	2
Dividend Yield	0.00%	0.00%	1.65%	0.00%	0.00%	0.46%
Value Score	A	-	-	A	B	C
Cash/Price	2.70	0.26	0.07	0.31	NA	0.04
EV/EBITDA	8.55	-2.69	13.36	14.87	NA	23.01
PEG Ratio	NA	1.11	2.99	0.42	NA	NA
Price/Book (P/B)	NA	3.41	3.16	10.96	4.43	4.61
Price/Cash Flow (P/CF)	0.59	11.32	12.71	1.61	10.80	15.71
P/E (F1)	1.41	17.43	21.82	4.66	12.73	30.96
Price/Sales (P/S)	0.24	6.51	2.47	0.74	NA	4.00
Earnings Yield	68.61%	-15.84%	4.37%	21.46%	7.86%	3.22%
Debt/Equity	-11.61	0.02	0.76	44.61	0.00	0.04
Cash Flow (\$/share)	5.21	-0.51	6.94	10.49	2.40	3.79
Growth Score	A	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	-14.51%	6.78%	10.44%	-18.63%	NA	9.95%
Proj. EPS Growth (F1/F0)	-10.97%	18.55%	-5.97%	-18.23%	7.94%	-31.00%
Curr. Cash Flow Growth	-15.98%	2.74%	5.22%	-14.18%	8.01%	40.31%
Hist. Cash Flow Growth (3-5 yrs)	2.66%	6.17%	8.52%	-4.00%	NA	5.28%
Current Ratio	2.20	3.78	1.33	1.12	0.93	1.66
Debt/Capital	NA%	4.35%	44.50%	97.81%	0.00%	4.03%
Net Margin	-5.25%	-117.10%	10.13%	-25.19%	NA	10.26%
Return on Equity	-91.41%	-64.27%	14.67%	104.13%	NA	18.88%
Sales/Assets	0.32	0.28	0.51	0.25	NA	0.77
Proj. Sales Growth (F1/F0)	-7.44%	0.00%	-1.54%	-8.01%	4.99%	2.80%
Momentum Score	D	-	-	C	B	B
Daily Price Chg	-0.96%	0.00%	-0.38%	-2.65%	0.46%	-2.18%
1 Week Price Chg	-6.78%	-1.37%	1.09%	-3.16%	7.60%	0.02%
4 Week Price Chg	-6.65%	-3.37%	2.23%	-2.65%	15.19%	8.86%
12 Week Price Chg	-21.37%	-0.91%	6.91%	-8.91%	37.26%	17.44%
52 Week Price Chg	4.04%	0.00%	2.28%	-24.69%	0.70%	70.04%
20 Day Average Volume	3,756,883	322,253	1,899,976	5,138,607	1,026	160,091
(F1) EPS Est 1 week change	-0.11%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.64%	0.00%	1.70%	-3.11%	2.51%	4.90%
(F1) EPS Est 12 week change	-5.97%	2.46%	3.08%	-3.11%	2.51%	4.90%
(Q1) EPS Est Mthly Chg	-71.43%	0.00%	0.83%	-2.52%	NA	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	D
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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