

Perrigo Company plc (PRGO)

\$60.20 (As of 02/10/20)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/28/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: C

Summary

Perrigo's constant focus on pursuing additional branded OTC opportunities in the United States is impressive. Moreover, the ongoing restructuring initiatives and operating expense discipline support its bottom line. Perrigo's decision to separate its Rx segment is encouraging as it faces a challenging pricing environment for generics, which is hurting sales. Shares of the company have also outperformed the industry in the past year. However, Perrigo faces competition in OTC markets from other generic drug producers and branded pharmaceutical companies. Moreover, the company is facing a \$1.9-billion tax notice in Ireland related to transactions done by Elan Pharma which is an overhang on the stock.

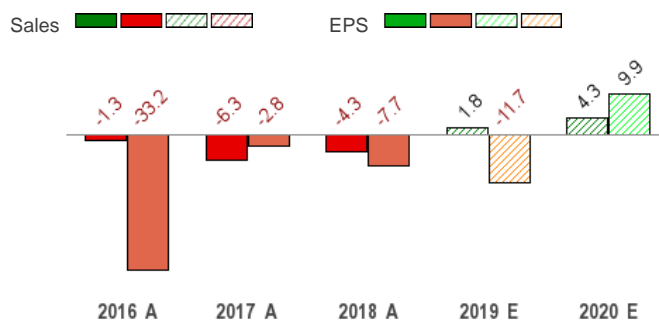
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$60.98 - \$40.68
20 Day Average Volume (sh)	972,722
Market Cap	\$8.2 B
YTD Price Change	16.5%
Beta	1.43
Dividend / Div Yld	\$0.84 / 1.4%
Industry	Medical - Products
Zacks Industry Rank	Top 28% (72 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.8%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	3.5%
Expected Report Date	02/26/2020
Earnings ESP	3.9%
P/E TTM	15.3
P/E F1	13.6
PEG F1	5.5
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,244 E	1,215 E	1,219 E	1,344 E	5,026 E
2019	1,175 A	1,149 A	1,191 A	1,293 E	4,818 E
2018	1,217 A	1,186 A	1,133 A	1,195 A	4,732 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.09 E	\$1.00 E	\$0.99 E	\$1.27 E	\$4.42 E
2019	\$1.07 A	\$0.86 A	\$1.04 A	\$1.07 E	\$4.02 E
2018	\$1.26 A	\$1.22 A	\$1.09 A	\$0.97 A	\$4.55 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 02/10/2020. The reports text is as of 02/11/2020.

Overview

Dublin, Ireland-based Perrigo Company plc was formed following the December 2013 merger of Allegan, MI-based Perrigo Company with Elan Corporation. The merged entity, with a diversified revenue stream, has a presence in the over-the-counter (OTC) market and sells infant formulas for the store brand market, generic extended topical prescription (Rx) products and specialty pharmaceutical drugs. The company is focusing on self-care products as part of its transformation into a self-care company from a healthcare company.

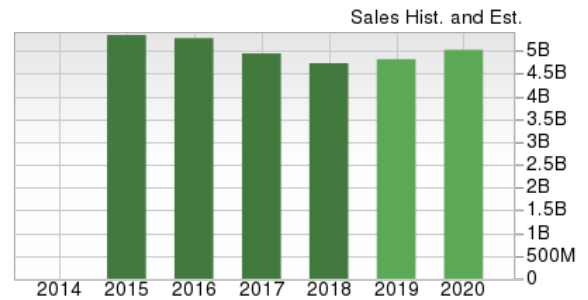
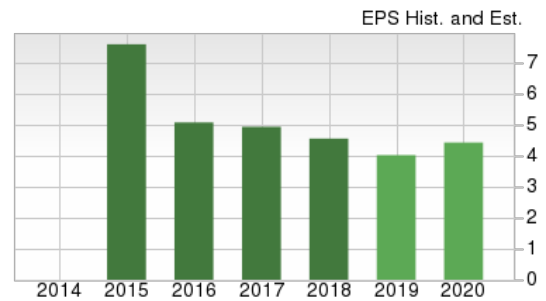
In May 2019, the company updated its reporting segments as part of its self-care transformation strategy. The company's reporting segments are:

Consumer Self Care Americas (CSCA) – The segment comprises the U.S., Mexico and Canada CHC business, including OTC, contract manufacturing, infant formula and animal health categories. The segment accounted for approximately 49.5% of the company's total revenues in the first quarter of 2019.

Consumer Self Care International (CSCI) – The segment comprises the branded consumer healthcare (BCH) segment mainly in Europe and the company's consumer-focused businesses in the UK and Australia. This segment includes UK liquids licensed products business. The segment accounted for 29.9% of total revenues in the first quarter of 2019.

RX Segment – The segment comprises the U.S. Prescription Pharmaceuticals business and the company's diagnostic business in Israel, which was previously reported under the CSCI segment. The segment accounted for 20.6% of total revenues in the first quarter of 2019. The company is planning to divest this segment by 2019-end or in 2020.

Perrigo generated revenues of \$4.7 billion in 2018, down 4.7%.



Reasons To Buy:

- ▲ **Acquisitions Driving Growth:** Perrigo has expanded its business through several acquisitions, which drives inorganic growth. In July 2019, the company acquired Ranir Global Holdings LLC, the global leader in private label oral self-care market as part of its transformation into a self-care company. The acquisition will boost Perrigo's position as a global leader in consumer self-care solutions.

We are positive on the company's growth-by-acquisition strategy. Restructuring initiatives bode well for the company's growth.

Other interesting acquisitions by Perrigo include Omega Pharma, one of the largest OTC companies in Europe, which strengthened the company's OTC leadership position into continental Europe. The purchase of a portfolio of women's healthcare products from Lumara Health widened its women's health offerings portfolio within the Rx segment while the acquisition of a portfolio of generic dosage forms and Retin-A (a topical prescription acne treatment) from Matawan Pharmaceuticals broadened its Rx portfolio. The acquisition of a product portfolio from Fera Pharmaceuticals expanded ophthalmic offerings and strengthened Perrigo's position within the Rx. Moreover, purchase of the controlling interest in Cobrek Pharmaceuticals strengthened its position in foam-based technologies for the U.S. Rx products. Going forward, management aims to make more of such deals & acquisition activities.

- ▲ **Focus on the OTC Market:** Perrigo expanded its product offerings in the OTC market through a number of targeted acquisitions in 2015. These include: Omega Pharma, Patheon's Mexican operations, ScarAway, Naturwohl Pharma and acquisition of a portfolio of well-established OTC brands (Niquitin and Coldrex) from Glaxo.

With growth in the OTC market on track as consumer demographics and dynamics drive the use of OTC products, Perrigo has identified potential Rx-to-OTC switches worth multibillion dollars, a key one being the OTC version of AstraZeneca's heartburn drug Nexium in September 2017. In August 2018, the company announced its strategy to boost sales by gaining non-prescription OTC rights for prescription drugs. The first agreement was signed in the same month with Merck through which Perrigo gained exclusive rights to pursue regulatory approval of OTC Nasonex nasal spray. The company also received approval for OTC Imodium, J&J's multi-symptom relief drug, in 2018.

- ▲ **Encouraging Restructuring Initiatives:** In the first quarter of 2019, Perrigo initiated a transformation process to change itself from a healthcare company to a self-care company. The transformation is anticipated to support and accelerate future growth at the company. The company has reconfigured its marketed portfolio and is accelerating its innovation pipeline. The company has also initiated cost savings program as part of the transformation process which is expected to generate \$100 million in annualized cost. The company is looking to partner with a leading cannabidiol company to capture the growing market.

In May 2019, the company agreed to sell its animal health unit for \$185 million in cash to PetIQ as part of the transformation process. In August 2018, the company announced its plan to divest its RX segment to unlock shareholder value. The segment has been facing declining sales amid competition and the separation is likely to help Perrigo focus on expanding its leading consumer business. The company may complete the divestment by the end of 2019 or in 2020.

In February 2017, the company adopted a cost optimization strategy to slash workforce by approximately 14% from its global non-production staff. This workforce reduction generated approximately \$130 million in annual savings till mid-2018. Moreover, the divestiture of Tysabri royalty stream to RPI Finance Trust generated \$2.2 billion in cash, which was partly used to reduce debt. The company is eligible to receive additional income in royalties.

Reasons To Sell:

▼ **Regulatory Investigations:** The U.S. Department of Justice Antitrust Division has conducted several investigations at Perrigo seeking information about its drug pricing practices. Several investigations are underway. In February 2018, a trial was set to investigate monopolization of bacitracin ophthalmic ointment in the United States. Although the case was finally settled, any such allegation in the future will impact the company's goodwill. In December 2018, the company received a notice from the Irish tax authorities for a tax liability of \$1.9 billion (€1.636 billion) related to Elan Pharma. The company has appealed against the decision and a judicial review is underway.

Perrigo's businesses continue to be impacted by pricing and other macro-economic pressures. Stiff competition remains a threat as well.

In March 2017, Perrigo received a notice of delisting from NYSE, as the company was unable to comply with the continued listing requirements under the timely filing criteria. Though the company filed its financial reports before the expiry of the extension period, such warnings always hurt a company's goodwill/reputation.

▼ **Pricing & Other Macro-Economic Pressures:** Pricing pressures and changing dynamics in the U.S. businesses, particularly in the Rx segment, is hurting the company's sales. The reduced pricing is attributable to a variety of factors including a shift in focus from customers to capturing supply chain productivity savings, low raw material pricing, loss of exclusivity on certain products and consolidation of certain customers in the Rx segment. The segment continues to experience a significant year-over-year reduction in pricing due to competitive pressure.

Meanwhile, the Rx segment is facing intense competition from other generic drug producers and brand-name pharmaceutical companies are launching their own generic version of their branded products. These include Par Pharmaceuticals, Apotex Corp., Glenmark Generics Inc., Impax Laboratories, Inc., Mylan, Prasco, LLC, Sandoz, Sun Pharmaceuticals, Taro Pharmaceuticals, Teva Pharmaceutical Industries Ltd., and Akorn.

Although the markets for OTC pharmaceuticals and infant formula holds potential, these are subject to higher competition from brand-name pharmaceutical and consumer product companies. Perrigo's primary competitors include LNK International, Inc., PL Developments, Dr. Reddy's Labs, Johnson & Johnson, Pfizer, Bayer AG, GSK, Abbott Nutrition and Mead Johnson Nutrition Co.

▼ **New Product Sales Insufficient:** Sales of the new products and innovation in Perrigo's core brand products have not been enough to offset the decline in sales due to price competition and loss of sales from discontinued products. Although the company launched several new products in 2018 and 2019, it has not made investments in the last few years to acquire new pipeline products, which have been the driving force.

Last Earnings Report

Perrigo Beats on Q3 Earnings, Misses on Sales

Perrigo reported third-quarter 2019 adjusted earnings of \$1.04 per share, which beat the Zacks Consensus Estimate of 93 cents. However, the bottom line decreased 4.6% year over year.

Net sales increased 5.1% year over year to \$1.19 billion but slightly missed the Zacks Consensus Estimate of \$1.2 billion. The year-over-year growth was mainly due to addition of products from the recently closed Ranir acquisition and higher demand for existing products. Sales of \$52 million from new products were partially offset by a loss of \$9 million from discontinued products. Sales rose 10.2% excluding the impact of foreign currency movement.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	-0.95%
EPS Surprise	11.83%
Quarterly EPS	1.04
Annual EPS (TTM)	3.94

Segment Discussion

In July, the company completed the acquisition of Ranir Global Holdings LLC, the global leader in private label oral self-care market, as part of its transformation into a self-care company. Perrigo stated in its third-quarter earnings call that the U.S. operations of Ranir will be included in the CSCA segment and non-U.S. operations will be included in the CSCI segment.

CSCA: Net sales of the segment in the third quarter of 2019 came in at \$613 million, up 2.9% year over year. Excluding net sales from exited businesses and the impact of foreign currency movement, net sales at CSCA increased approximately 9.1% to \$619 million. The growth in sales was driven by \$54 million of net sales from products added with the Ranir acquisition, higher sales of store brand allergy products, products in smoking cessation category and new product sales of \$6 million. However, it was partially offset by lower infant formula contract pack, lower net sales from Mexican business and loss of sales from discontinued business.

CSCI: The segment reported net sales of \$348 million, up 4% from the year-ago period. On a constant-currency basis, the metric increased 10.1%. The growth was driven by new product sales of \$28 million, especially weight loss product XLS Forte 5, and \$23 million of net sales from Ranir, as well as higher sales in cough/cold/allergy/sinus category.

The CSCI segment has grown organically over the past 12 months. With the launch of new products and Ranir acquisition, CSCI segment is expected to continue its growth trend. However, currency movement may have an unfavorable impact on the top line.

Rx Segment: Net sales of the segment increased 13.6% to \$230 million. The upside can be attributed to new product sales of \$18 million and higher volumes of existing products. The company lost \$6 million in sales from discontinued products.

2019 Outlook

Perrigo tightened its guidance for adjusted earnings per share to the range of \$3.85 to \$4.05 compared with the previously expected range of \$3.75 to \$4.05.

Recent News

Announces 2019 Preliminary Results – Jan 14

Perrigo announced preliminary results for the fourth quarter of 2019 as well as the full year.

Q419 Preliminary Results

The CSCA segment reported year-over year preliminary net sales growth of more than 15% during the quarter with 11% increase in adjusted organic net sales, led by strong performances in both over-the-counter (OTC) and infant nutrition businesses. The CSCI segment also witnessed an 8% rise in reported net sales with adjusted organic net sales growth of 4%. Further, during the fourth quarter, net sales in the RX segment grew 3% compared with last year.

Full-Year Preliminary Results

Following an expected solid performance in the fourth quarter, Perrigo reported preliminary net sales of \$4.8 billion for the full year, slightly higher than the Zacks Consensus Estimate of \$4.77 billion.

The sales number indicated an increase of 2% from the year-earlier reported figure. Excluding the impact of currency, adjusted net sales also increased 6% in preliminary report while adjusted organic net sales were up 3%.

CSCA segment generated net sales of approximately \$2.5 billion in its preliminary release, suggesting almost 3% growth from the prior-year reported number. Excluding the impact of currency, adjusted net sales too rose 7% while adjusted organic net sales improved more than 2%.

Net sales in the CSCI segment came in at \$1.4 billion, implying a 1% dip from the prior-year reported figure. However, excluding the impact of currency, adjusted net sales were up 5%. Adjusted organic net sales inched up 2% as well.

For 2019, the RX segment generated net sales of approximately \$970 million, hinting at an increase of 5% from the year-ago reported number.

Acquires Steripod Toothbrush Accessory Brand – Jan 6

Perrigo announced that its subsidiary, Ranir, acquired leading toothbrush accessory brand, Steripod, from Bonfit America. Steripod portfolio includes antibacterial toothbrush protectors, kids' products and tongue cleaners. The deal is expected to boost its oral self-care portfolio. Terms of the deal are yet to be disclosed.

Valuation

Perrigo's shares are up 16.5% in the year-to-date period and 24.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are up 2.6% and 1.1% in the year-to-date period. Over the past year, stocks in the sub-industry and sector are up 10.6% and 2.9%, respectively.

The S&P 500 Index is up 3.2% in the year-to-date period and 20.3% in the past year.

The stock is currently trading at 13.55X forward 12-month earnings per share, which compares to 25.06X for the Zacks sub-industry, 21.36X for the Zacks sector and 19.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.96X and as low as 7.95X, with a 5-year median of 13.78X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$64.00 price target reflects 14.41X forward 12-month earnings per share.

The table below shows summary valuation data for PRGO

Valuation Multiples - PRGO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.55	25.06	21.36	19.12
	5-Year High	25.96	25.33	21.36	19.34
	5-Year Low	7.95	17	15.83	15.18
	5-Year Median	13.78	19.62	18.9	17.47
P/S TTM	Current	1.75	4.32	3.16	3.97
	5-Year High	8.18	4.38	4.16	3.98
	5-Year Low	1.06	3.15	2.75	2.54
	5-Year Median	2.34	3.68	3.28	3.13
P/B TTM	Current	1.42	3.21	4.59	4.29
	5-Year High	3.04	4.26	5.03	4.42
	5-Year Low	0.9	2.28	3.49	2.9
	5-Year Median	1.67	2.78	4.3	3.62

As of 02/10/2020

Industry Analysis Zacks Industry Rank: Top 28% (72 out of 255)



Top Peers

Abbott Laboratories (ABT)	Neutral
Bayer Aktiengesellschaft (BAYRY)	Neutral
GlaxoSmithKline plc (GSK)	Neutral
Johnson & Johnson (JNJ)	Neutral
Mallinckrodt public limited company (MNK)	Neutral
Mylan N.V. (MYL)	Neutral
Novartis AG (NVS)	Neutral
Dr. Reddys Laboratories Ltd (RDY)	Underperform

Industry Comparison Industry: Medical - Products				Industry Peers		
	PRGO Neutral	X Industry	S&P 500	MNK Neutral	MYL Neutral	RDY Underperform
VGM Score	C	-	-	A	B	B
Market Cap	8.19 B	269.59 M	24.17 B	456.63 M	11.67 B	7.30 B
# of Analysts	7	2	13	9	9	2
Dividend Yield	1.40%	0.00%	1.77%	0.00%	0.00%	0.60%
Value Score	B	-	-	A	A	C
Cash/Price	0.05	0.08	0.04	1.12	0.03	0.04
EV/EBITDA	13.38	0.18	13.89	-1.77	8.37	13.56
PEG Ratio	5.45	2.77	2.05	0.07	1.37	NA
Price/Book (P/B)	1.42	3.77	3.27	0.15	1.02	3.50
Price/Cash Flow (P/CF)	7.83	20.06	13.60	0.29	2.61	16.32
P/E (F1)	13.62	27.52	19.00	0.79	5.02	31.00
Price/Sales (P/S)	1.74	5.18	2.66	0.14	1.03	3.00
Earnings Yield	7.34%	0.34%	5.26%	126.15%	19.94%	3.23%
Debt/Equity	0.58	0.11	0.71	1.64	1.17	0.01
Cash Flow (\$/share)	7.69	-0.01	6.89	18.42	8.68	2.70
Growth Score	D	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	-12.87%	11.68%	10.85%	3.37%	3.79%	-0.76%
Proj. EPS Growth (F1/F0)	10.30%	13.02%	7.22%	-20.20%	4.70%	-13.41%
Curr. Cash Flow Growth	-7.17%	4.01%	8.88%	-0.48%	5.27%	29.21%
Hist. Cash Flow Growth (3-5 yrs)	10.29%	9.59%	8.36%	36.60%	22.00%	-0.91%
Current Ratio	2.07	2.77	1.22	1.07	1.43	1.81
Debt/Capital	36.86%	12.94%	42.90%	62.11%	53.87%	0.81%
Net Margin	5.24%	-15.64%	11.81%	-111.44%	0.42%	9.62%
Return on Equity	9.39%	-6.74%	16.98%	24.36%	18.80%	18.08%
Sales/Assets	0.42	0.62	0.54	0.30	0.36	0.75
Proj. Sales Growth (F1/F0)	4.75%	11.32%	4.06%	-7.78%	3.77%	8.93%
Momentum Score	C	-	-	D	B	B
Daily Price Chg	0.48%	0.00%	0.45%	2.84%	-0.66%	-0.32%
1 Week Price Chg	5.03%	0.00%	2.47%	15.03%	6.30%	1.10%
4 Week Price Chg	19.11%	0.00%	0.95%	63.55%	8.85%	5.79%
12 Week Price Chg	22.93%	8.92%	5.05%	93.24%	31.28%	14.88%
52 Week Price Chg	28.08%	0.00%	16.18%	-74.46%	-27.13%	20.11%
20 Day Average Volume	972,722	146,944	1,999,386	9,333,048	5,387,968	239,251
(F1) EPS Est 1 week change	0.10%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	3.52%	0.00%	0.00%	-0.05%	0.50%	2.16%
(F1) EPS Est 12 week change	3.12%	0.00%	-0.18%	0.47%	0.79%	-9.55%
(Q1) EPS Est Mthly Chg	10.15%	0.00%	0.00%	-2.49%	-0.27%	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	D
Momentum Score	C
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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