

Perrigo Company plc (PRGO)

\$54.22 (As of 08/18/20)

Price Target (6-12 Months): **\$57.00**

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:A

Value: A

Growth: B

Momentum: F

Summary

Perrigo reported mixed second-quarter results wherein earnings beat estimates but revenues missed the same. The company's constant focus on pursuing additional branded OTC opportunities in the United States is impressive. The acquisition of Ranir in 2019 has boosted the topline significantly. Moreover, the ongoing restructuring initiatives and operating expense discipline support its bottom line. Perrigo's plan to separate its Rx segment is encouraging as the segment faces a challenging pricing environment for generics, which is hurting sales. 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.

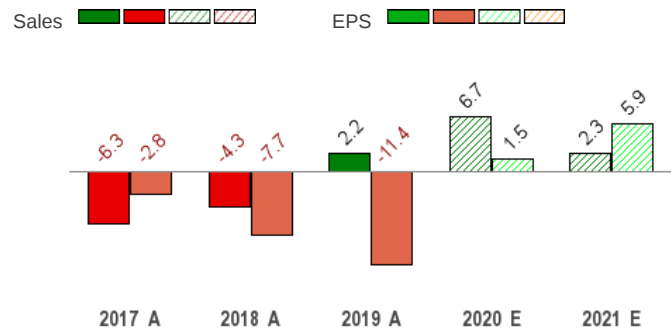
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$63.86 - \$40.01
20 Day Average Volume (sh)	952,414
Market Cap	\$7.4 B
YTD Price Change	5.0%
Beta	1.16
Dividend / Div Yld	\$0.90 / 1.7%
Industry	Medical - Products
Zacks Industry Rank	Bottom 26% (186 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.4%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	1.3%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	12.7
P/E F1	13.3
PEG F1	5.3
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,278 E
2020	1,341 A	1,219 A	1,236 E	1,363 E	5,160 E
2019	1,175 A	1,149 A	1,191 A	1,323 A	4,837 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$4.33 E
2020	\$1.14 A	\$1.03 A	\$0.87 E	\$1.07 E	\$4.09 E
2019	\$1.07 A	\$0.86 A	\$1.04 A	\$1.06 A	\$4.03 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 08/18/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/19/2020.

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.

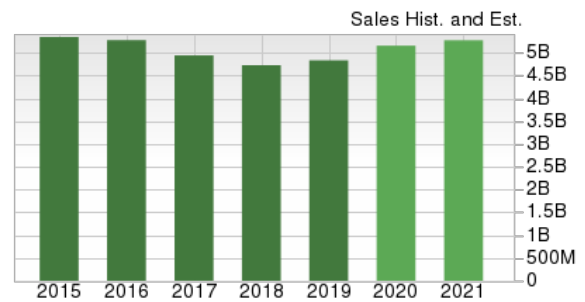
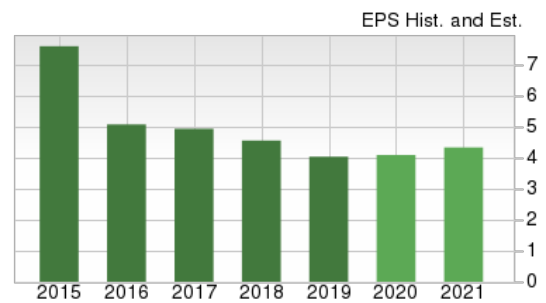
In May 2019, the company updated its reporting segments as part of its self-care transformation strategy. The company's reporting segments are:

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 51.4% of the company's total revenues in 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 28.6% of total revenues in 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% of total revenues in 2019. The company is planning to divest this segment in the future.

Perrigo generated revenues of \$4.84 billion in 2019, up 2.2%.



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 has boosted Perrigo's position as a global leader in consumer self-care solutions. In April 2020, the company acquired oral care assets of High Ridge Brands, which is estimated to bring additional \$100 million in 2021. In January 2020, Perrigo acquired leading toothbrush accessory brand, Steripod from Bonfit America, followed by oral self-care assets of High Ridge Brands in April. These deals also boosted Perrigo's oral self-care leadership position. In June 2020, the company made a strategic investment in and long-term supply agreement with Kazmira to enter the growing cannabidiol market.

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 since 2015. These include: Omega Pharma, Patheon's Mexican operations, ScarAway, Naturwohl Pharma and acquisition of a portfolio of certain established OTC brands from Glaxo, J&J and Merck

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. These deals boost the company's leading position.

▲ **Encouraging Restructuring Initiatives:** In 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 should generate \$100 million in annualized cost.

In May 2019, the company sold its animal health unit 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 pricing pressure amid competition and the separation is likely to help Perrigo focus on expanding its leading consumer business. The company has plans to divest the segment. However, it is yet to determine a timeline for completion.

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.

▲ **Favorable Debt Profile:** Perrigo has a favorable debt profile. The company's debt to capital was 37.4% as of Jun 30, 2020, unfavorable compared with 35.5% at the end of first quarter 2020. However, Perrigo has no debt maturing in the next 12 months as of June quarter end. Moreover, the company had cash and cash equivalents of \$1.46 billion as of June quarter end. Overall, the company's debt profile looks good enough to avoid an insolvency.

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:** The pricing pressure 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 as well as brand-name pharmaceutical companies 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.

▼ **Competition in OTC Market:** Although the markets for OTC pharmaceuticals and infant formula hold 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.

Last Earnings Report

Perrigo Q2 Earnings Surpass Estimates, Revenues Miss

Perrigo reported second-quarter 2020 adjusted earnings of \$1.03 per share, which beat the Zacks Consensus Estimate of 87 cents. The bottom line increased 19.8% year over year.

Net sales increased 6.1% year over year to \$1.22 billion, missing the Zacks Consensus Estimate of \$1.23 billion by a slight margin. The year-over-year growth was driven by the addition of products from the recently closed Ranir acquisition, launch of generic albuterol sulfate and higher sales of OTC products. These were partially offset by a loss of \$11 million in sales from discontinued products, \$26 million from divested businesses and adverse impact of COVID-19 on international sales. Sales rose 10% excluding exited businesses and the impact of foreign currency movement. Organic net sales (excludes sales of Ranir products, exited businesses and the impact of currency) were up 2.6% year over year.

Moreover, the company's business received a boost with lower-than-expected consumer pantry de-load in U.S. OTC market. Please note that demand for self-care products and drugs had increased in March due to stockpiling by customers amid COVID-19 pandemic.

Segment Discussion

CSCA: Net sales of the segment in the second quarter of 2020 came in at \$628 million, up 7.8% year over year, driven by higher sales of OTC and nutrition businesses, increased demand related to COVID-19 and \$63 million of net sales from oral self-care portfolio. These were partially offset by de-prioritization of certain products amid COVID-19 and normal pricing pressure on specific products. Net sales at CSCA increased approximately 1.6%, organically. The company lost sales of \$22 million during the quarter from the exited animal health business.

CSCI: The segment reported net sales of \$231 million, down 2% from the year-ago period. The decline was due to lower category sales owing to COVID-19 related bans and consumer pantry de-stocking. These were partially offset by new product sales of \$23 million, especially weight loss product XLS Forte 5, and \$19 million of net sales from Ranir's products. Organic sales decreased 3%.

Rx Segment: Net sales of the segment increased 12.9% to \$270 million. The upside can be attributed to new product sales of \$58 million, led by the launch of generic version of Teva's inhaler — ProAir HFA — partially offset by lower dermatology volumes. The company lost \$9 million in sales from discontinued products.

2020 Guidance

Perrigo maintained its outlook for 2020 that it had provided on its fourth-quarter 2019 earnings call.

Perrigo expects adjusted earnings in the range of \$3.95 to \$4.15 per share. It anticipates net sales to grow 6-7% year over year in 2020. Organic growth in net sales is expected to be approximately 3%.

Quarter Ending 06/2020

Report Date	Aug 05, 2020
Sales Surprise	-0.69%
EPS Surprise	18.39%
Quarterly EPS	1.03
Annual EPS (TTM)	4.27

Recent News

Acquires OTC Self-Care Brands In Eastern Europe – Aug 11

Perrigo announced that it has will acquire three Eastern European OTC skincare and hair loss treatment brands (Emolium, Iwostin and Loxon) from Sanofi.

Divests Generic Prescription Pharmaceuticals Business in United Kingdom – Jun 19

Perrigo announced that it has entered into an agreement with a private equity firm headquartered in the United Kingdom to sell its Rosemont Pharmaceuticals business for £156 million or approximately \$195 million in cash. Rosemont Pharmaceuticals is a generic prescription pharmaceuticals manufacturer focused on liquid medicines based in the United Kingdom

The deal was signed and closed on the same day. The deal is a part of Perrigo's plan to transform into to a consumer-focused self-care company.

Partners to Enter CBD Market – Jun 17

Perrigo announced that it has entered long-term supply agreement with Kazmira LLC to enter the cannabidiol market. Perrigo will also make a strategic investment in Kazmira by buying a minority equity stake.

FDA Approval for Store Brand Equivalent of Voltaren – Apr 6

Perrigo announced that the FDA has granted approval to its ANDA for OTC diclofenac sodium topical gel 1% or Voltaren Arthritis Pain. Per IQVIA, the drug's sales in the 12 months ending February 2020 were \$550 million.

Completes Acquisition of High Ridge Brands' Oral Care Assets – Apr 2

Perrigo announced that it has completed the acquisition of the oral care assets of High Ridge Brands for \$113 million in cash. The deal is expected to boost its oral self-care portfolio.

Valuation

Perrigo's shares are up 5% in the year-to-date period and up 15.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are down 3.9% and up 1.4%, respectively, in the year-to-date period. Over the past year, stocks in the sub-industry and sector are down 4.4% and up 9.5%, respectively.

The S&P 500 Index is up 5.2% in the year-to-date period and 17.1% in the past year.

The stock is currently trading at 12.79X forward 12-month earnings per share, which compares to 29.06X for the Zacks sub-industry, 22.33X for the Zacks sector and 22.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.4X and as low as 7.83X, with a 5-year median of 13.13X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$57.00 price target reflects 13.45X 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	12.79	29.06	22.33	22.91
	5-Year High	21.4	31.01	23.17	22.91
	5-Year Low	7.83	17.09	15.89	15.25
	5-Year Median	13.13	20.27	18.97	17.58
P/S F12M	Current	1.41	3.86	2.83	3.72
	5-Year High	4.3	3.92	3.41	3.72
	5-Year Low	1.03	2.9	2.22	2.53
	5-Year Median	2.08	3.29	2.89	3.05
P/B TTM	Current	1.25	3.08	3.79	4.55
	5-Year High	2.67	3.48	5.07	4.56
	5-Year Low	0.88	2.2	2.94	2.83
	5-Year Median	1.66	2.82	4.28	3.75

As of 08/18/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (186 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Abbott Laboratories (ABT)	Neutral	3
Bayer Aktiengesellschaft (BAYRY)	Neutral	3
GlaxoSmithKline plc (GSK)	Neutral	3
JohnsonJohnson (JNJ)	Neutral	3
Mallinckrodt public limited company (MNK)	Neutral	3
Mylan N.V. (MYL)	Neutral	3
Novartis AG (NVS)	Neutral	3
Dr. Reddys Laboratories Ltd (RDY)	Neutral	3

Industry Comparison Industry: Medical - Products				Industry Peers		
	PRGO	X Industry	S&P 500	MNK	MYL	RDY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	A	A
Market Cap	7.40 B	342.03 M	23.71 B	132.80 M	8.37 B	10.10 B
# of Analysts	6	3	14	8	8	2
Dividend Yield	1.66%	0.00%	1.63%	0.00%	0.00%	0.45%
Value Score	A	-	-	A	A	C
Cash/Price	0.20	0.12	0.07	5.86	0.04	0.04
EV/EBITDA	13.84	-0.25	13.45	-13.69	6.67	23.54
PEG Ratio	5.29	4.11	3.01	0.02	2.18	NA
Price/Book (P/B)	1.25	3.26	3.18	0.14	0.71	4.71
Price/Cash Flow (P/CF)	7.84	18.08	12.70	0.08	1.94	16.06
P/E (F1)	13.22	38.86	21.98	0.25	3.67	31.65
Price/Sales (P/S)	1.46	5.29	2.46	0.06	0.73	4.09
Earnings Yield	7.54%	-1.11%	4.33%	403.18%	27.24%	3.15%
Debt/Equity	0.60	0.14	0.76	5.39	0.84	0.04
Cash Flow (\$/share)	6.92	-0.00	6.94	20.20	8.33	3.79
Growth Score	B	-	-	C	C	A
Hist. EPS Growth (3-5 yrs)	-14.14%	10.79%	10.44%	1.65%	0.16%	9.95%
Proj. EPS Growth (F1/F0)	1.36%	7.84%	-5.97%	-28.74%	-0.17%	-31.00%
Curr. Cash Flow Growth	-9.84%	4.10%	5.22%	10.71%	-3.91%	40.31%
Hist. Cash Flow Growth (3-5 yrs)	-1.06%	7.71%	8.52%	10.87%	16.74%	5.28%
Current Ratio	2.05	3.00	1.33	1.48	0.93	1.66
Debt/Capital	37.43%	14.85%	44.50%	84.35%	45.72%	4.03%
Net Margin	4.73%	-25.78%	10.13%	-89.95%	2.35%	10.26%
Return on Equity	10.05%	-8.55%	14.59%	34.26%	20.43%	18.88%
Sales/Assets	0.44	0.51	0.51	0.23	0.38	0.77
Proj. Sales Growth (F1/F0)	6.66%	0.00%	-1.54%	-16.15%	3.38%	2.80%
Momentum Score	F	-	-	D	A	B
Daily Price Chg	-0.99%	0.00%	-0.41%	0.64%	-0.37%	-0.31%
1 Week Price Chg	5.85%	0.00%	1.09%	14.58%	-1.01%	0.02%
4 Week Price Chg	-4.94%	-1.53%	3.41%	-38.19%	-1.10%	11.65%
12 Week Price Chg	-1.18%	4.54%	9.80%	-53.13%	0.31%	19.61%
52 Week Price Chg	15.04%	1.08%	3.43%	-65.34%	-15.19%	72.41%
20 Day Average Volume	952,414	302,574	1,894,669	9,376,778	4,505,597	156,009
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.26%	1.79%	1.86%	7.16%	1.80%	4.90%
(F1) EPS Est 12 week change	0.97%	2.18%	2.86%	7.16%	1.64%	4.90%
(Q1) EPS Est Mthly Chg	-8.47%	0.00%	0.80%	-2.71%	2.05%	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	B
Momentum Score	F
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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