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Allergan Q3 2009 Earnings Call Transcript

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Allergan, Inc. (NYSE:AGN)

Q3 2009 Earnings Call

October 29, 2009 11:00 AM ET

Executives

Jim Hindman - Investor Relations

David E.I. Pyott - Chairman and Chief Executive Officer

Jeffrey L. Edwards - Executive Vice President, Finance and Business Development and Chief Financial Officer

Scott M. Whitcup, M.D. - Executive Vice President, Research and Development

Joann Bradley - Investor Relations

Analysts

Frank Pinkerton - SunTrust Robinson Humphrey

Marc Goodman - UBS Securities LLC

Annabel Samimy - Thomas Weisel Partners LLC

David Buck - Buckingham Research Group

Gregg Gilbert - BAS-ML

John Boris - Citigroup

Peter J. Bye - Jefferies and Company

Aaron Ronny Gal - Bernstein Research

Larry Biegelsen - Wells Fargo Securities LLC

Operator

Hello and welcome to the Allergan Third Quarter 2009 Earnings Call. Following today's presentation, there will be a formal question-and-answer session. (Operator Instructions). Until then, all lines will remain on listen-only mode. As a request of the company, today's conference is being recorded. If anyone has any objections, you may disconnect at this time.

I would like to introduce today's conference host, Mr. Jim Hindman, Senior Vice President, Treasury Risk and Investor Relation. Sir, you may begin.

Jim Hindman

Thank you, Jerry. Good morning.

With me for today's conference call is David Pyott, Chairman of the Board and Chief Executive Officer, Jeff Edwards, Executive Vice President, Finance and Business Development, Chief Financial Officer, Dr. Scott Whitcup, Executive Vice President, Research and Development, Chief Scientific Officer, and Jim Barlow, Senior Vice President and Corporate Controller.

Before we move ahead, I would like to remind you that certain statements that we will make in this presentation are forward-looking statements. These forward-looking statements reflect Allergan's judgment and analysis only as of today, and actual results may differ materially from current expectations based on a number of factors affecting Allergan's businesses.

Accordingly, you should not place undue reliance on these forward-looking statements. For a more thorough discussion of the risks and uncertainties associated with the forward-looking statements to be made in this conference call and webcast, we refer you to the disclaimer regarding forward-looking statements that is included in our third quarter 2009 earnings release, which was furnished to the SEC today on Form 8-K, as well as our filings with the SEC referenced in that disclaimer.

We will follow-up the question-and-answer session of this call with a short listen-only segment, where we'll provide additional miscellaneous information that relates to our business. Under Regulation FD, in order to be able to discuss this information freely during the quarter, we must be sure that it is in the public domain. This conference call and accompanying webcast are being simultaneous broadcast over the Internet with replays available for one week. You can access this information on our website at www.allergan.com.

At this point, I would like to turn the call over to David Pyott.

David E.I. Pyott

Great. Thank you, Jim. Good morning, ladies and gentleman.

Overall sales have progressed in an arising trend of growth across 2009. In the third quarter, sales increased year-over-year by 4.2% from dollars by 7.0% to local currencies, driven by a strong quarter in ophthalmic pharmaceuticals and BOTOX, as well as improvements in all the Allergan medical businesses, with the exception of LAP-BAND.

As most of our product markets are showing signs were emerging from a downturn in consumers spending. Given recent volumes here in sales from several businesses which was stronger than we had foreseen earlier in the year, we made the strategic decision to invest an increased direct-to-consumer advertising programs for JUVÉDERM, LAP-BAND, LATTISSE, RESTASIS. As we wish to anticipate the recovery in our markets and to boost the sales trajectory of these consumer-facing products.

Almost all of the increase of non-GAAP SG&A expenditures of $36 million, Q3 2009 versus Q3 of 2008 is attributable to this increase and targeted DTC advertising with clear return metrics. With virtually no increase in base SG&A spending, this demonstrates that we're continuing to strictly control expenditure across all spending areas and that we have focused expenditure in DTC, which by its nature is all variable spend and can be turned on and off rapidly depending on business conditions.

As a results of all of these factors also weighted by the weakening of the U.S. dollar relative to most well currencies. We have raised sales guidance for the full year by $150 million from the bottom-end of the range and $100 million on the top-end of the range.

A lot of management potential is being directed to correctly forecasting the shape of the economic recovery in 2010, modeling the impact of a full year of competition for BOTOX Cosmetic and BOTOX Therapeutic in the U.S. and containing the impact of generics to our U.S. ophthalmology business.

For the third quarter, we recorded non-GAAP earnings per share of $0.70 with strong operational controls in place, we're able to increase non-GAAP earnings per share by 7.7% over the results of Q3 of 2008 and year-to-date by 10.5% well in excess of sales growth.

In terms of R&D, we spent a $167 million on a non-GAAP basis, only marginally up on the expenditure in Q2 of 2009. And under the adjusted a 180 million spent in Q3 of 2008. This is a consequence of the completion of many expensive Phase III trials, such as BOTOX for chronic migraine, OZURDEX for both, RVO and TRIVARIS, ACUVAIL and ZYMAR X, earlier this year.

Also given the appropriate caution in ramping up expenditure at the start for the year, when we were still in the midst of recession and the longer reaction cycle of R&D, we're now stepping up many new projects.

In terms of our strategic intent, we would have liked to spend more on R&D and we'll both initiate and execute more programs during the remainder of 2009 continuing into 2010.

However on a positive note, for the long-term efficiency of our business, R&D at Allergan is able to conduct clinical trials at much lower expense than in the past. As we have enforced certain trials, successfully contracted lower rates from CROs and have moved to a greater proportion of our trials to lower cost locations overseas.

Of course, R&D is not about the expenditure but it is about results. To this end, we're pleased that we continue to demonstrate strong R&D productivity. Since the last earnings call, we have filled with U.S. FDA the following products, BOTOX for chronic migraine and also for adult spasticity, as well as OZURDEX with additional indication of uveitis and adolescent use of LAP-BAND.

Regarding publication of scientific data on the use of BOTOX in chronic migraine, Phase III data were presented at the International Headache conference in September. However, our article submission after several review cycles was finally not accepted for publication by the lawsuit and will shortly be submitted to another well respected medical journal.

Positive Uveitis Phase III data were presented at the Retinal sub-special today at AAL last week. Regarding product approvals we've been trying a string of successes. LUMIGAN in Japan which launched on October, LUMIGAN 0.1% in Europe indicated for First-Line Treatment to Glaucoma has been recommended for approval by the committee for medicinal products for marketing authorization. And LUMIGAN 0.1% has also been approved in Brazil.

ACUVAIL has been approved and launched in U.S. and LATISSE in Korea. In France, we received approval for BOTOX for upper and lower limbs spasticity in children.

Turning to the performance of the businesses, I'll commence with BOTOX, which has performed much stronger than we had anticipated. Sales in the quarter grew 3.0% year-over-year on dollars and 5.8% to local currencies, but the pickup in growth relative to Q2 year-over-year in both the Cosmetic and Therapeutic businesses.

Sales of BOTOX both Cosmetic and Therapeutic were particularly strong in Asia-Pacific and Latin America. We're pleased with BOTOX Therapeutic is growing worldwide, more strongly than early in the year. Therapeutic have caused at the other half of the business are very few Wall Street customer surveys are conducted. So far, impact from competition both in the U.S. and Europe have been less than we'd expected.

In the U.S. aesthetic business, the overall market has expanded as Dysport came onto the scene. Due to the obligations amended by the FDA to carry out REMS programs for both Dysport and BOTOX, provision customers are constantly reminded that there is a lack of interchangeability between botulinum toxin units and there are no valid dose conversion ratios between the products.

In addition, BOTOX benefits from 20 years of experience in the U.S. for the BOTOX brand. And seven years of experience, since the FDA approval of BOTOX Cosmetic. And also benefits from high levels of customer and physician satisfaction.

Based in customer surveys, it seems that BOTOX has only lost a limited amount to market share and a significant amount to Dysport use stands from free samples, as physicians experiment and how to incorporate this product into their practices.

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