



Allergan Inc. (AGN)
Q4 2002 Financial Release Conference Call
Event Transcript

Wednesday, January 29, 2003 11:00 am

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THE OPERATOR:

Welcome to the Allergan fourth quarter 2002 earnings conference call. (CALLER INSTRUCTIONS). I would now like to introduce your host for today, Mr. Jim Hindman, Senior Vice President, Treasury, Risk and Investor Relations. Sir, you may begin.

MR. JAMES HINDMAN:

Good morning. With me for today's conference call is David Pyott, Chairman, President and Chief Executive Officer; Les Kaplan, Corporate Vice President, Research and Development; Eric Brandt, Corporate Vice President and CFO; and Jim Barlow (phonetic), Vice President and Controller. As is our standard, I will begin the meeting by addressing our forward-looking statement. Following this statement, I will turn the call over to David Pyott, who will provide a brief overview of our recently completed quarter. We will then move the discussion over to Eric Brandt, who will provide a brief financial commentary at Allergan's fourth quarter and year-to-date performance. Eric will also provide a brief Q1 and full year 2003 financial outlook. We will then open the call up to questions from

the call participants. Finally, we're going to follow up the Q&A session of this call with a short listen only segment, where we will 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. Allergan's forward-looking statement is as follows. By now, you all should have seen our press release and associated financial information. In addition to reviewing our fourth quarter and full-year 2002 results, some of our comments today include statements regarding Allergan's or management's intentions, goals, beliefs, assumptions projections and outlook. Any such statements are forward-looking statements, and are made as of today only. Please remember that the actual results could differ materially from those projected in any of our forward-looking statements. In particular, it is important to note that because all forecasts are inherently estimates, that cannot be made with precision, the Company's performance has, at times, differed from its targets. The company often does not know what the actual results for a quarter or year will be until after the quarter or year has added. Therefore, the company will not report or comment on its progress during the subject quarter. Any statement made by others with respect to the company's progress mid-quarter cannot be attributed to the company. We have provided additional information in today's press release, in our Form 10-K for fiscal 2001 and in Form 10-Qs for the first, second and third quarters for 2002, concerning factors that could cost actual results to differ materially from those in the forward-looking statements. If you do not have a copy of the press release, or the Form 10-K, or the Form 10-Qs, we will be happy to provide you with them.

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

MR. DAVID PYOTT:

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Thank you, Jim. Good morning, ladies and gentlemen. For the fourth quarter of 2002, we are pleased to report a set of very strong operating metrics, reflecting continuing benefits from our single-minded focus on our pharmaceuticals businesses, after the style of AMO. Excluding sales of non-pharmaceuticals and divested products, sales in the fourth quarter were up 20 percent year-over-year at constant currency, driven by broad strength across the franchises of BOTOX Therapeutic, BOTOX Cosmetic and our glaucoma product line. Excluding nonrecurring items, diluted earnings per share at 54 cents for the fourth quarter, were up 26 percent on a comparable pro forma basis for the pharmaceuticals businesses versus the fourth quarter of 2001. This result exceeded the guidance we provided and First Call consensus of 53 cents, and marks the 20th straight quarter that we have exceeded street expectations.

Commenting on the full year 2002, I'm very pleased that the spin-off of our medical device businesses was a great success, both for Allergan and for AMO. We completed this complex transaction on-time, below budget, and we have no services issues for any of our customers. At the time of announcing the spin-off, we set new goals for the mid term of mid to upper teens for sales growth, and earnings per share growth in the range of 22 to 25 percent. For 2002, we were able to exceed these goals for the pharmaceuticals-only business. Sales, excluding divested products, increased for the full-year 21 percent at constant currency, and earnings per share, on a comparable basis, increased 27 percent.

Our operating model for our pharmaceuticals businesses demonstrates great strength, compared to the data for (indiscernible) companies and sources of leverage, as we plan for the coming years. In 2002, we increased gross margins, including contract manufacturing, to a healthy 84 percent. This was due to mix shift to our core strategic products, and leveraging of cost of goods across

our tight network of only three manufacturing plants. SG&A for the year was 43 percent of sales, a high watermark for industry -- for our industry, as we launched key products. In the fourth quarter, SG&A dropped to 39 percent, as we begin to leverage the investments we have made. Leveraging of SG&A will remain a focus of management in the coming years. R&D for the year, ran at 17 percent of pharmaceutical sales, which is again at the high end of the industry, and reflects the opportunities and great potential of our pipeline.

High sales growth is being driven by multiple franchises. In terms of year-over-year growth in the fourth quarter in constant currencies, BOTOX was up 46 percent; our glaucoma product line comprising Lumigan, Alphagan, Betagan (phonetic) and Propene (phonetic) was up 18 percent. And Ophthalmic pharmaceuticals, overall, were up 11 percent. Fazarac (phonetic) X-factory (phonetic) sales, which declined 3 percent, were affected by small inventory movements in U.S. wholesalers.

BOTOX sales for the quarter were 128 million. As we have frequently commented, the fourth quarter is seasonally always the strongest quarter. The price increase posted in the U.S. on November the 15th, did lead to a buy in of inventory by customers, affecting sales in late November and December. But due to careful monitoring of customer ordering patterns, we believe that this has not borrowed from January 2003 sales, as sales of BOTOX in January continued very strong. The BOTOX business is robust, is it consists of multiple product indications and multiple geographic markets. In many different stages of maturity, from the nascent to the more mature; while most investor attention gets focused on BOTOX Cosmetic, still, approximately 60 percent of total sales are in fact, therapeutic.

In our press release, we commented full year growth of BOTOX. Worldwide Therapeutic sales, still more important than Cosmetic, increased over 30 percent. The most mature part

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of the Therapeutic segment is movement disorders. But it is still enjoying attractive growth, due to strong growth in the newer geographic market. Such an example would be Cervical Dystonia in Japan, which was approved in the fall of 2001.

Focal Spasticity growth is driven by many individual country approvals across Europe in 2002, while this indication remains several years away from approval in the United States.

(indiscernible) an earlier stage of development would include headache, where more than 16 scientific papers were presented at the American Headache Society in the third quarter of 2002; and also back spasm and hyperhydrosis. Hyperhydrosis is already approved in the UK, Canada, Australia and the Netherlands, and should be approved across the European Union, completing the mutual recognition process in the second quarter of 2003, with licenses being issued thereafter in the individual countries.

Turning to Cosmetic. Sales of BOTOX Cosmetic for the full year increased by over 60 percent. Based on the U.S. growth rate, it does not appear that the weakness of the U.S. economy has impacted demand for improved appearance with BOTOX. Growth in Canada, with the full year of more of history than the U.S., as they were approved one year earlier, also shows no impact of the weak economy or a substantial slowing of growth. Cosmetic growth, however, is not only a North America phenomenon. Use of BOTOX Cosmetic transcends continents and cultures, from Latin America to Asia. Growth continues to be impacted favorably by the approvals in Australia, New Zealand, Singapore and Switzerland.

In Europe, we anticipate approval any day now for BOTOX Cosmetic, which will be marketed as Vistavell (phonetic) in France. France is acting as the reference member state for the European Union. Clearly, this event will impact 2003 sales. In order to set expectations clearly,

regarding the first quarter, please remember that BOTOX sales in the first quarter are always sequentially lower than in the fourth quarter.

Moving onto ophthalmology -- we feel 2002 was another year full of accomplishments. According to IMS, worldwide in market data for the first nine months, Allergan was the fastest growing global ophthalmology company, growing 15 percent. Allergan for the same time period was also the fastest growing global company in the field of glaucoma, growing 28 percent, and also the fastest-growing company in lubricating tears, growing 12 percent. According to an independent survey by various (indiscernible) Scott Levin (phonetic) in the U.S., Allergan's ophthalmic sales force was again voted as number one for the fifth straight year in, terms of service and product knowledge. In the U.S., we exited the year in December at a new dollar marketshare high, of approximately 25 percent.

We're very pleased with the progress of Lumigan. Since the publication of head-to-head data in the American Journal of Ophthalmology, demonstrating that Lumigan lowered interocular pressure more than Zilotan (phonetic), at every time point and at every study visit, we've seen a breaking trend of prescriptions, as physicians re-evaluate their treatment options. We're also pleased with the excellent launch trajectory of Lumigan in Europe, the best of any glaucoma product launched so far.

Hyperemia (phonetic) has not been an issue in Europe. Worldwide sales of Alphagan, and Alphagan P, were down 2.5 percent in constant currency versus the fourth quarter of 2001. This is explained by less use of Alphagan in the U.S., as a first-line agent, with Alphagan's real place in the physicians' (indiscernible) and its adoption of the second line or as an add-on product to prostaglandins or prostamides (phonetic) or beta-blockers. In Europe, Alphagan is being marginally impacted by the successful launch of Zilocon (phonetic).

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Generic risk for the original Alphagan is limited, as almost 100 percent of prescriptions have moved over to Alphagan P, and an extremely high percentage of physicians are actually writing on their prescription pad Alphagan with the P. Alphagan P has been launched in Brazil and India, and is being received with equal enthusiasm as in the United States. P will be launched across Latin America and Asia during 2003. Work continues on our European filing. Regarding skin care sales in the fourth quarter, which were down 8 percent, and TAZORAC sales were down 3 percent versus the fourth quarter of 2001, obviously, this requires some commentary. This is to be explained by small movements in U.S. wholesale inventories. As a result of a September price increase, wholesalers built some stocks in the third quarter, which is quite apparent when one looks at the third quarter year-over-year growth rate of 80 percent for TAXORAC worldwide. Given the small size of TAZORAC in the overall mix of Allergan, and the strong trajectory of U.S. prescriptions, we frankly missed the run-up in wholesaler inventory. This has since been corrected, and TAZORAC inventories were at normal levels at the end of December, completely in accordance with our corporate goals. The further explanation of the year-over-year skin care decline was the impact of a branded generic Onazolex (phonetic). However, this is a small number in the big picture.

Shipments of Avage, our new product, to wholesalers, commenced in January. For the full year, TAZORAC sales grew a strong 37 percent. According to various (indiscernible) Scott Levin data, TAZORAC was the fastest-growing retinoid prescribed for acne last year, and Allergan recorded the highest growth rate of the major dermatology companies in the United States, in the field of topical agents for acne and psoriasis.

Looking forward to 2003, this will be quite a prolific year for R&D. In ophthalmology alone, we have many innovations. First of all with the

approval of RESTASIS, as the first pharmaceutical product in the world to treat the underlying symptoms of dry eye, we have the opportunity to address one of the most significant unmet patient needs in ophthalmology. This will create a new market in the coming three to five years, that should be as large as the current market for lubricating tears. Secondly, we have Gatafloxisin (phonetic), the first of the fourth generation of Fleuroclimilones. Third, and improved version of Acular, already the world's leading non-steroidal anti-inflammatory. With Vitrase (phonetic), our corporation project with Ista (phonetic) Pharmaceuticals, going to an FDA advisory panel in March, we might have yet another product launch in 2003.

Epinastine, an antihistamine, will complete the mutual recognition process in Europe in the first quarter of this year, and should be approved in the U.S. in the fourth quarter, ready for launching at the beginning of 2004.

Rounding out the tremendous amount of activity for this year, we are just launching Avage in the U.S. and Canada; in the third quarter, we will file oral Tazeratine for psoriasis, and are very excited about its prospects.

Looking to the year 2003, we are optimistic about the outlook, given the steady stream of new products, and continuing strong growth of our existing core products of Lumigan, BOTOX Therapeutic, BOTOX Cosmetic and TAZORAC. I'd now like to pass over to Eric Brandt, who will take you through the financials.

Eric Brandt THANK you, David. I'd like to provide our audience with a brief review of our fourth quarter and full year financial performance. For the fourth quarter 2002, excluding non-recurring items outlined in our press release, Allergan generated 54 cents diluted earnings per share as a pure play specialty pharmaceutical company, which represents a 26 percent in earnings per share versus the comparable 2001 pro forma amount.

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