

Seeking Alpha 

Allergan Plc (AGN) Q3 2016 Results - Earnings Call Transcript

Nov. 2, 2016 1:39 PM ET

by: SA Transcripts

Q3: 10-30-16 Earnings Summary



10-Q



Slides



Analysis



News

EPS of \$3.32 misses by \$-0.26 | Revenue of \$3.62B (+ 4.3% Y/Y) misses by \$-70M

Allergan Plc (NYSE:AGN)

Q3 2016 Earnings Call

November 02, 2016 8:30 am ET

Executives

Lisa M. DeFrancesco - Allergan Plc

Brenton L. Saunders - Allergan Plc

William J. Meury - Allergan Plc

C. David Nicholson - Allergan Plc

Maria Teresa Hilado - Allergan Plc

Analysts

David R. Risinger - Morgan Stanley & Co. LLC

David Maris - Wells Fargo Securities LLC

Gregg Gilbert - Deutsche Bank Securities, Inc.

Vamil K. Divan - Credit Suisse Securities (NYSE:USA) LLC (Broker)

Jami Rubin - Goldman Sachs & Co.

Marc Goodman - UBS Securities LLC

MARKET EXHIBIT 1100

Operator

Good morning. My name is LaShonda, and I will be your conference operator today. At this time, I would like to welcome everyone to the third quarter earnings conference call. Thank you. I will now turn today's call over to Lisa DeFrancesco to begin. Please go ahead.

Lisa M. DeFrancesco - Allergan Plc

Thank you, LaShonda, and good morning, everyone. I'd like to welcome you to the Allergan third quarter 2016 earnings conference call. Earlier this morning, we issued a press release reporting Allergan earnings from continuing operations for the quarter ended September 30, 2016. The press release and our slide deck, which we are presenting this morning, are available on our corporate website at www.allergan.com. We're conducting a live webcast of this call, a replay of which will be available on our website after the conclusion. Please note that today's call is copyrighted material of Allergan and cannot be rebroadcast without company's express written consent.

Turning to slide 2, I'd also like to remind you, during the course of this call, management will make projections or other forward-looking remarks regarding future events or the future financial performance of the company. It's important to note that such statements and events are forward-looking statements and reflect our current perspective of the business trends and information as of today's date. Actual results may differ from current expectations and projections depending on a number of factors affecting the Allergan business. These factors are detailed in our periodic public filings with the Securities and Exchange Commission. Allergan disclaims any intent or obligation to update these forward-looking statements except as expressly required by law.

Turning to slide 3 in our agenda this morning, with us on today's call are Brent Saunders, our Chairman, CEO, and President, who will provide an overview of our third quarter business highlights; Bill Meury, our Chief Commercial Officer, will provide an overview of our commercial performance in the quarter; David Nicholson, our Chief R&D Officer, will provide highlights from our pipeline achievements in 2016 and upcoming milestones; and Tessa Hilado, our Chief Financial Officer, will discuss the Allergan third quarter continuing operations results in more detail. Also on the call and available during the Q&A are Rob Stuart, our Chief Operating Officer, and Bob Bailey, our Chief Legal Officer.

With that, I'll turn the call over to Brent.

Brenton L. Saunders - Allergan Plc

Great. Thank you, Lisa, and good morning, everyone. At Allergan, we continue to take bold actions as we move forward with our Growth Pharma agenda. We continue to drive top-tier revenue growth and top-tier profitability. We are also making strategic Open Science investments to build even greater depth, breadth, and capabilities in our R&D pipeline. In the third quarter, we added shareholder-friendly capital allocation to our story, with a \$5 billion share buyback that we completed ahead of schedule. And today we are announcing a new board-approved action to increase return for shareholders and take our capital allocation plans to a new level.

In addition to doing the things that make Allergan strong financially, we're also taking bold actions in these turbulent times, when the price of healthcare is in the spotlight. A good example is our Social Contract with Patients. We are leading the way with responsible pricing ideals for our branded therapeutic products, and we are leading the conversation to codify what our social contract means to us. It means balancing investment and innovation with pricing and access, as well as quality and education. The Social Contract is Allergan's commitment to the people who count on us to find new treatments for their most pressing medical needs, and it is good for Allergan. So why are we able to be so bold and adopt a Social Contract? Because it is the right thing to do, and because we have such strong confidence that our business and our R&D pipeline will sustain our future growth.

Turning to slide 6, the two major actions we announced today demonstrate our deep-seated conviction in the future revenue growth, as well as strong cash flows, from our business. Over the last quarter, we have spent a lot of time looking at various opportunities to deploy our reloaded balance sheet to increase shareholder return, and our board of directors has acted. The actions we are taking today illustrate that we are focused on increasing shareholder return. First, we are beefing up our share repurchase program to a total of \$15 billion. Second, we are initiating a \$0.70-per-share quarterly dividend for the very first time.

Let me start with the enhanced share repurchase program. Since the Teva close, we've been aggressively buying our stock in the open market and have already repurchased \$5 billion of our own stock. While we believe that our stock should be trading significantly

higher than it is today, the current market conditions create an opportunity to repurchase significantly more stock. There is no more accretive asset on our radar than our own stock. So our board of directors has authorized an additional \$5 billion repurchase. This brings our total share repurchase authorization to \$15 billion. Now we are moving quickly to purchase the remaining \$10 billion through an accelerated share repurchase program, or ASR, which allows us for significant upfront share count reduction.

Next, the dividend. For the first time, our board has approved a cash dividend to return cash flow to shareholders on an ongoing basis. The initiation of a dividend is consistent with our Growth Pharma profile, the free cash flow that our business generates, and our desire to increase shareholder return. This dividend will be funded from our ongoing cash flow without dipping into the proceeds from our Teva transaction. And we expect it to grow annually while maintaining our investment-grade credit ratings. And we retain the vast majority of our firepower and flexibility to continue to invest in our business, acquire additional stepping-stone assets, and provide fuel for sustainable top line growth. Our capital allocation actions are intended to balance shareholder return with the investment for future growth.

Turning to our operating performance on slide 7 and our report card on how we did this quarter. Obviously, we are disappointed that our results this quarter did not meet our expectations, and therefore we are revising our 2016 full-year guidance. However, we believe that we are incredibly well-positioned for 2017 and beyond. So let's look at the health of our company. In my view, there are five key measures to gauge the health and growth prospects of any biopharmaceutical company. First, how are the promoted products doing? Second, how are the new product launches going? Third, how are the established products faring near the end of their patent lives when they're no longer being promoted? Fourth, how is the pipeline progressing? And, finally, how is the company performing against key profitability metrics?

Allergan continues to generate sales growth that is at the top end of our peer group. Sales were \$3.6 billion, up more than 7%, excluding Namenda IR, divestitures, FX, and other adjustments. Our key promoted products are growing nicely, most of them double-digit. Our new product launches are performing exceptionally well. I'm absolutely thrilled with how we are doing with our key brands and future growth drivers. Our pipeline is on a roll, and our profitability metrics are in the top tier of our peer group. Where we missed the

mark was among a few of our established brands and non-promoted products. All in all, the report card for growth looks good this quarter, setting us up for growth in 2017 and beyond.

Even with the weakness in our established and non-promoted products, we retain a top-tier profitability profile with a gross margin of 87.8% and an operating margin of 49.3%. These metrics were a little lighter this quarter, partly due to investments we are making in manufacturing to support continued strong growth of Botox and our Eye Care products and continued promotional investment behind our brands, and increased R&D investment versus last year. Our non-GAAP EPS was \$3.32. I am confident that our team has made the right investments in our business and has laid a strong foundation for top-tier growth and profitability.

You can see on slide 8 that the majority of our top-level products are growing, and along with the new launches they represent 73% of our total revenue. Many of them are growing double-digit rates, including Botox, up 15%; Restasis, up 13%; Linzess up 42%, our filler line up 21%; Lo Loestrin up 16%; Ozurdex up 25%. I'm also proud to see new product launches contributing more than \$90 million this quarter. This is a top-tier growth story.

On the established and non-promoted products, we had more erosion than expected on Namenda XR and our mesalamine-containing products, which are facing in-class competition from generic drugs and have had some formulary disruption. Our future is not driven by these established products. Our future is built on our growth products, which is why I am so confident in it. Overall, our business is very healthy, and it's a very good picture to have so many products growing so strongly.

Before handing off to Bill, I'd like to mention the progress we're making in R&D to build and deliver our pipeline. The team is doing an exceptional job. Our R&D productivity is strong. Already this year we've had 19 major pharma and device product approvals and 11 major submissions. We've also reached some key milestones, such as the approval of our multidose Restasis and a positive relamorelin Phase 2b results that were announced just last week. Relamorelin was one of our early Open Science deals. We used an option agreement to gain access to this promising treatment for gastroparesis. Now that relamorelin has demonstrated broad efficacy and tolerability in a Phase 2b trial, we have exercised our option to acquire Motus and plan to take relamorelin into Phase 3 trials within Allergan.

Explore Litigation Insights

Docket Alarm provides insights to develop a more informed litigation strategy and the peace of mind of knowing you're on top of things.

Real-Time Litigation Alerts



Keep your litigation team up-to-date with **real-time alerts** and advanced team management tools built for the enterprise, all while greatly reducing PACER spend.

Our comprehensive service means we can handle Federal, State, and Administrative courts across the country.

Advanced Docket Research



With over 230 million records, Docket Alarm's cloud-native docket research platform finds what other services can't. Coverage includes Federal, State, plus PTAB, TTAB, ITC and NLRB decisions, all in one place.

Identify arguments that have been successful in the past with full text, pinpoint searching. Link to case law cited within any court document via Fastcase.

Analytics At Your Fingertips



Learn what happened the last time a particular judge, opposing counsel or company faced cases similar to yours.

Advanced out-of-the-box PTAB and TTAB analytics are always at your fingertips.

API

Docket Alarm offers a powerful API (application programming interface) to developers that want to integrate case filings into their apps.

LAW FIRMS

Build custom dashboards for your attorneys and clients with live data direct from the court.

Automate many repetitive legal tasks like conflict checks, document management, and marketing.

FINANCIAL INSTITUTIONS

Litigation and bankruptcy checks for companies and debtors.

E-DISCOVERY AND LEGAL VENDORS

Sync your system to PACER to automate legal marketing.