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Allergan Inc. Q4 2007 Earnings Call Transcript

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Allergan Inc. (NYSE:AGN)

Q4 2007 Earnings Call

January 30, 2008 11.00 a.m. ET

Executives

James Hindman - Senior Vice President, Treasury, Risk and Investor Relations

David Pyott - Chairman of the Board and Chief Executive Officer

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

Dr. Scott Whitcup - Executive Vice President, Research and Development

James Barlow - Senior Vice President and Corporate Controller.

Analysts

Marc Goodman – Credit Suisse

Larry Biegelsen – Wachovia Capital

Gregg Gilbert – Merrill Lynch

Peter Bye – Jefferies and Company

James Dawson – Buckingham Research Group

Louise Chen – Morgan Stanley

Ronnie Gal – Sanford Bernstein

Rohit Vanjani - Leerink Swann

MANAGEMENT EXHIBIT 1106

Frank Pinkerton - Banc of America Securities

Operator

Hello and welcome to the Allergan Fourth Quarter 2007 Earnings Call. Following today's presentation, there will be a formal question-and-answer session. (Operator Instructions) I would like to introduce today's conference host, Mr. Jim Hindman, Senior Vice President, Treasury, Risk and Investor Relations. Sir, you may begin.

James Hindman

Thank you, Laurel. 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; and Jim Barlow, Senior Vice President and Corporate Controller.

Before we move ahead, I would like 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 fourth quarter 2007 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 the information freely during the quarter, we must be sure that it is in the public domain.

This conference call and accompanying webcast are being simultaneously 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 Pyott

Great, thank you, Jim. Good morning, ladies and gentlemen.

We're delighted to report on our first quarter ever with more than \$1 billion of sales, an exceptional growth of 32%. Even after factoring in the benefit of the weak dollar, and a small first time contribution from SANCTURA in Q4, sales growth on an organic basis in local currency was an exceptional 25% over Q4 of 2006.

Pharmaceutical sales increased 24.5% in dollars, with the strongest growth rate for any quarter in 2007 for ophthalmics and continued strength in BOTOX. Sales of core medical devices continued on a spectacular growth trend with an increase of 70% in dollars year-over-year.

For the full year, 2007, Allergan's pharmaceutical businesses grew 18% in dollars and 15% in local currency, far exceeding any industry growth benchmarks. The core medical device businesses on a pro forma basis, i.e. including the historical sales of the predecessor companies Inamed and Corneal in the base for a full comparative year to 2006, grew with an exceptional 49% in 2007 on a local currency basis.

Regarding earnings, adjusted diluted earnings per share for the fourth quarter were \$0.60 marking a 17.6% increase over Q4, 2006, as we boosted R&D expenditures by 50% or \$64 million year-over-year. For the full year, adjusted diluted earnings per share at \$2.18 increased 19.1%. The reconciliation of these adjustments to GAAP numbers are fully laid out in our press release.

It is apparent that our investments to grow our newest markets have paid off handsomely as we ride the waves of satisfying consumer and patient needs in the aesthetic markets, contributing a solution to the global obesity epidemic. For the third quarter of 2007, the last period for which we have reliable data on a global basis, we actually see an acceleration of worldwide market growth rates. In Q3, we estimate the markets grew at the following rates: Bariatric obesity intervention products at 59%, dermal fillers at 40%, neuromodulators at 20%, and breast aesthetics at 24%.

Only ophthalmic pharmaceutical products slightly slowed to a 10% growth rate. Furthermore, we are growing our global market share in all of these markets. While we obviously cannot fully predict future economic trends and their impact on our markets, up to today we have not detected any impacts on our sales of any slowdown in consumer spending in the US or other major markets in the world.

Regarding memantine, we are obviously disappointed that the second trial failed to meet its primary endpoint of delaying progression of glaucoma. During the course of the last 12 months however, we have recommended you to remove any sales from memantine from your models, and reminded you that this was a high risk with high reward program, as it was in a pioneering field.

Regarding our own internal strategic plans we have always excluded memantine from our operating planned projections given the low probability of success. Therefore, we remain confident about our ability to achieve our sales and earnings aspirations.

Returning to our operations, as you can analyze from our press release, strong growth is occurring across a broad range of businesses and products. In addition, this is occurring across all operating regions of the world. In fact, for the full year, our non-US businesses, even on a local currency basis, grew slightly faster than our combined US businesses, reflecting our ability to execute successful strategies, developed in the US or Europe, across the world.

For the full year we grew every business on a pro forma basis in local currency at least a double-digit rate with only a few exceptions; US skincare, where we suffered from the impact of new competition to TAZORAC, breast aesthetics, where we had some minor operating issues in Australia and Japan, and dermal fillers in Latin America where we were negotiating the return of distribution rights from local distributors appointed by Corneal which led to the re-launch of our line in the course of Q4.

Regarding improvements in performance for skin care, we are delighted that we have established a co-promotion agreement for TAZORAC with Stiefel Laboratories, which is a major player in the acne market. Our US skin care organization has also been responsible for considerable growth in sales of BOTOX for hyperhidrosis in 2007.

Furthermore, we were pleased to enter into a strategic collaboration with Clinique Laboratories which is the number one prestige cosmetics brand in the US, and look forward to launching a premium skin care line, exclusive to our physician channels under a Clinique banner in the fall of this year. As in the past, our objective is to expand an already growing market and achieve a market leading position.

Turning to a commentary on the performance of the individual business, I'll start with BOTOX. Continuing strong growth in the fourth quarter of 24% in dollars and 20% in local currency, points to the long-term potential of both the therapeutic and aesthetic markets. As well as the sustainability of these franchises, for the full year, the therapeutic franchise accelerated from its recent historical path of mid double-digit growth, to 19% versus 2006. BOTOX cosmetic expanded 29% with all operating regions growing at over 20% versus 2006. Benefiting from the synergies of Allergan's full range of products, for 2007 the split between the two franchises was 50:50.

In the fourth quarter, we enjoyed even stronger sales growth outside the US, precisely in those markets where we already successfully face competition. In the top ten global markets, we estimate that we maintained share in 91% despite the entry of new competitors. In Europe, Galderma announced that they do not expect the approval of Reloxin in France until 2009. France acting as the reference member state, therefore the first EU market, would then allow for rollouts to the other member states in Europe. This marks a considerable delay from our historical expectations. In Japan, we look forward to the approval of BOTOX cosmetic and launch via our partner GSK at the end of this year. Clearly, Japan is a high potential market for facial aesthetic treatments.

Dermal fillers. Q4 sales of dermal fillers strongly expanded to 61 million, more than doubling the sales recorded by Corneal as an independent company as we build momentum for the continued expansion of this market in the US and Canada. In the market surveys in North America it would appear that JUVEDERM sales are approaching those of RESTYLANE. We attribute this to the quality of the JUVEDERM products, the breadth of our product range with BOTOX acting as the gateway product, investments in DTC, and the power of Allergan's distribution network. JUVEDERM was recently launched in Southeast Asia. In Europe in January we launched a new range of dermal fillers, JUVEDERM ULTRA incorporating lidocaine for patient comfort.

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