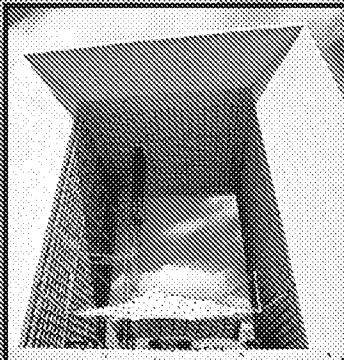


Allergan, Inc.



La Grande Arche © Johan Otto Von Spreckelsen

First Call Note

Specialty Pharmaceuticals
U.S.

**Share price at
July 26, 2005**
\$85.42

12-month fair value
\$81.00
(Previous: \$77.00)

Raising Estimates, Fair Value As Allergan Ups Its Forecasts; Is An Acquisition in the Works?

■ Allergan reported better than expected revenue of \$591 million (vs. our \$547 million estimate) and EPS of \$0.78 (vs. our \$0.75 estimate), excluding one-time items. While the company benefited from stronger Restasis, Alphagan P, and Skin Care sales, Botox sales of \$212.5 million beat our estimate only slightly, and Lumigan sales of \$61.5 million were \$5.5 million below our forecast.

■ For 3Q 2005, the company expects pharma-only sales of \$565-\$580 million and EPS of \$0.78-\$0.79. For 2005, the company increased its forecast for pharma-only sales to \$2,175-\$2,225 million from \$2,100-\$2,200 million. Allergan also raised its Restasis sales target to \$165-\$185 million from \$140-\$160 million. Based on Allergan's increased forecasts, we have raised our 2005 and 2006 EPS estimates to \$3.23 and \$3.74, respectively, from \$3.20 and \$3.72, and our fair value estimate to \$81 from \$77.

■ While 2005 growth looks strong to us, especially with higher Restasis sales, we remain concerned about longer-term growth trends for Botox, Lumigan, and Alphagan. With the company holding \$873 million of cash and the stock at a new high this year, we would not rule out a potential acquisition.

Market capitalization \$11,292.52 million	
Shares Outstanding 132.2 million	
12-month high/low \$87.23/\$66.78	
Reuters AGN.N	Bloomberg AGN
Index S&P 500: 1,231.32	

Timothy Chiang
Senior Analyst

Nemee Sy
Research Associate

Steven Barlow
Research Associate

	YEAR-END DEC	EPS (NEW) (\$)	EPS (OLD) (\$)	P/E (x)	GROWTH RATE (%)	TOTAL REV. (mil.)
2003A		2.30	2.30	37.1	22	1,755.4
2004A		2.75	2.75	31.1	20	2,045.6
2005E		3.23	3.20	26.4	18	2,276.2
2006E		3.74	3.72	22.8	16	2,474.0

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REVENUE AND EPS TARGETS INCREASED...IS AN ACQUISITION IN THE WORKS?

We believe this quarter's results were good, but not great. Botox sales of \$212.5 million were good, beating our \$210 million estimate, as were Alphagan sales of \$64.3 million, beating our \$55 million forecast. Certainly, the strong Restasis launch is impressive. The company's purchase of the Restasis royalty stream from Novartis earlier this year for \$110 million will likely benefit margins for the remainder of 2005 and 2006. We have thus raised our revenue and EPS estimates to reflect the company's new targets for the third quarter of 2005 and the full year.

So why do we still remain somewhat concerned about the company's growth? Well, we believe many of the company's growth prospects still rest with Botox (botulinum toxin type A), and while it is still growing by 20% annually, we believe competitive threats could emerge in 2006 or 2007 from Ipsen/Medicis Dysport (botulinum toxin type A). In addition, we believe it is important that the company receive a positive nod from the FDA on its Alphagan Z (new and improved formulation of Alphagan P). While Alphagan P has been a consistent source of upside for the company over the past several years, we believe it could become more difficult without another version of the product approved and launched shortly. We think Alcon and Bausch & Lomb are slowly making headway with their generic versions of Alphagan. Also, Alcon has its own version of Alphagan P filed at the FDA, which over the next year could receive approval. Alcon filed a 505b(2) application on Alphagan P in 2004. While we are encouraged by the strong ramp being experienced by Restasis, Botox makes up 37% of pharmaceutical sales, with Alphagan P making up another 11% of pharma sales. More competition arising on almost half of the company's pharma sales within the next two years is the source of our concern.

Still, we believe the company's management has done an excellent job managing growth and investor expectations — over the past year, especially. We believe the company may be getting close to making a product or company acquisition. The company expressed an interest in the past in purchasing products that would complement Botox (i.e., dermal fillers). With the company finishing the quarter with \$873 million of cash, and the stock approaching a new high for 2005, we believe the company has ample resources to make an acquisition in the near term.

OUR ESTIMATE CHANGES

The company increased its full year 2005 forecast for total revenue to \$2,175-\$2,225 million (from \$2,135-\$2,235 million) and EPS of \$3.20-\$3.23 (from \$3.15-\$3.20). For 2005, the company expects gross margins of 82.5%-83.5%, SG&A/sales of 38%-39%, R&D/sales of 17.5%, and a 29% tax rate.

For 2005 and 2006, we increased our revenue forecast to \$2,276.2 million (from \$2,201 million) and \$2,474 million (from \$2,460 million), respectively, and our EPS estimates to \$3.23 (from \$3.20) and \$3.74 (from \$3.72). For 2005 and 2006, we increased our Eye Care sales to \$1,283 million (from \$1,250 million) and \$1,379 million (from \$1,358 million) and Skin Care sales to \$105 million (from \$81 million) and \$100 million (from \$81 million). Beginning in the fourth quarter of 2005, we are taking contract sales out of our model (previously \$35 million in 2005 and \$26 million in 2006).

Additionally, we have raised our net interest income forecast to \$5.3 million (from net interest expense of \$4 million) in 2005 and \$5.6 million in 2006. The increase in revenue and interest income is partially offset by a higher SG&A margin forecast of 39.1% (from 37.7%) in 2005 and 37.1% (from 36.9%) in 2006.

ESTIMATE REVISIONS

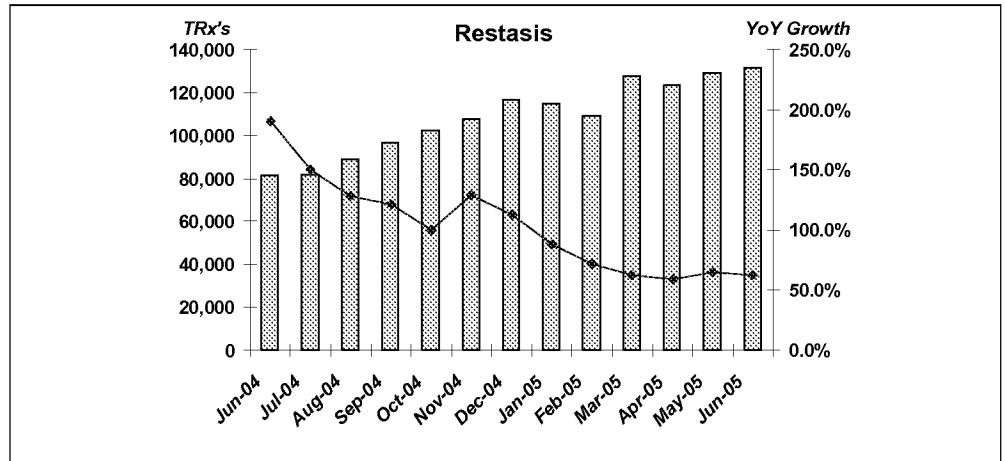
(\$ millions)	2005		2005		2006	
	AGN New Estimate	AGN Old Estimate	NB New Estimate	NB Old Estimate	NB New Estimate	NB Old Estimate
Botox	\$800-\$840	\$800-\$840	\$838	\$835	\$995	\$995
Alphagan P (Z approval needed)	\$235-\$255	\$235-\$255	\$260	\$260	\$240	\$240
Lumigan	\$255-\$275	\$255-\$275	\$255	\$275	\$290	\$315
Restasis	\$165-\$185	\$140-\$160	\$185	\$166	\$231	\$185
Eye care	NA	NA	\$1,283	\$1,250	\$1,379	\$1,358
Skin care	NA	NA	\$105	\$81	\$100	\$81
Total Pharma	\$2,175-\$2,225	\$2,100-\$2,200	\$2,225	\$2,166	\$2,474	\$2,434
Contract sales	NA	NA	\$51	\$35	\$0	\$26
Net sales	NA	\$2,135-\$2,235	\$2,276	\$2,201	\$2,474	\$2,460
EPS	\$3.20-\$3.23	\$3.15-\$3.20	\$3.23	\$3.20	\$3.74	\$3.72
Pharma Gross Margin	82.5%-83.5%	82%-83%	83.7%	83.3%	82.9%	82.9%
SG&A	38%-39%	37%-38%	39.1%	37.7%	37.1%	36.9%
R&D	17.5%	17.5%	17.7%	17.7%	17.4%	17.0%
Share Count (millions)	133-134	133-134	132.3	132.6	132.2	132.6
Tax Rate	29%	29%	29%	29%	30%	30%

Source: Natixis Eisichroeder estimates and company reports

DTC DRIVING STRONG RESTASIS GROWTH

For the quarter, the company reported better than expected Restasis sales of \$46.3 million, \$16.3 million more than our estimate of \$30 million. Strong Restasis sales were aided by a DTC campaign on cable television focusing on women over the age of 50. Prescriptions for Restasis have continued to grow over the past three months, with new and total prescriptions reaching new highs. During 2Q05, total prescriptions were up approximately 9% sequentially and 62% year over year. In addition, as of April 19, Allergan no longer pays Novartis royalties for worldwide sales. We expect continued growth for Restasis and have increased our sales forecast to \$185 million (from \$166 million) in 2005 and \$231 million (from \$185 million) in 2006.

RESTASIS TRX DATA



Source: IMS Health

RESTASIS MONTHLY TRX SHARE AND GROWTH

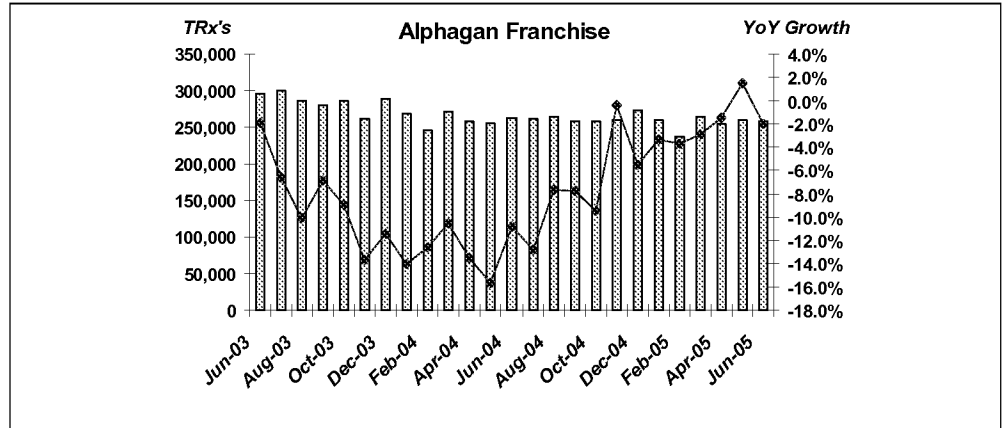
	Restasis			YoY Growth	
	NRx	TRx	Refills	NRx	TRx
Jun-04	36,156	81,006	44,850	86.2%	190.6%
Jul-04	37,624	81,795	44,171	71.8%	150.4%
Aug-04	41,900	88,931	47,031	73.4%	127.9%
Sep-04	47,494	96,599	49,105	87.3%	121.4%
Oct-04	50,249	102,251	52,002	75.0%	99.7%
Nov-04	52,109	107,291	55,182	122.1%	128.8%
Dec-04	54,595	116,787	62,192	107.0%	112.9%
Jan-05	53,619	114,439	60,820	65.5%	87.6%
Feb-05	51,304	108,750	57,446	50.4%	71.3%
Mar-05	60,033	127,459	67,426	46.0%	62.0%
Apr-05	56,521	123,299	66,778	51.1%	58.7%
May-05	57,611	128,879	71,268	58.7%	64.7%
Jun-05	58,298	131,473	73,175	61.2%	62.3%

Source: IMS Health

WILL THE ALPHAGAN Z LAUNCH PROVIDE THE NEXT BOOST?

This quarter, Alphagan P sales were \$64.3 million (up 3%), \$9.3 million higher than our forecast of \$55 million. For the week ended July 15, Alphagan P had 90.2% share of total prescriptions despite generic competition. For 2005 and 2006, We forecast Alphagan sales of \$260 million (down 3%) and \$240 million (down 8%), respectively. While the company continues to hold a major share of the Alphagan market with Alphagan P, we believe Alcon and Bausch & Lomb slowly continue to make inroads here. In our view, it is important for the company to receive an approval of Alphagan Z in 2005.

ALPHAGAN TRX DATA



Source: IMS Health

ALPHAGAN MONTHLY TRX SHARE AND GROWTH

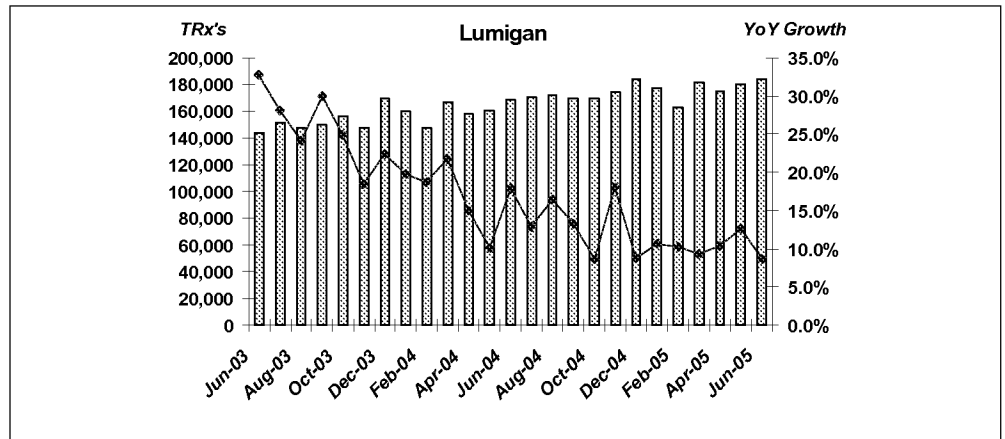
	Allergan Alphagan Franchise	Alphagan Franchise YoY Growth	Bausch & Lomb Brimonidine	Alcon Brimonidine
Jun-04	90.7%	-10.8%	6.7%	2.6%
Jul-04	90.6%	-12.7%	6.7%	2.7%
Aug-04	90.3%	-7.7%	6.6%	3.1%
Sep-04	90.2%	-7.8%	6.5%	3.3%
Oct-04	89.8%	-9.5%	6.7%	3.5%
Nov-04	89.7%	-0.4%	6.6%	3.6%
Dec-04	89.6%	-5.5%	6.6%	3.8%
Jan-05	89.3%	-3.4%	6.7%	4.0%
Feb-05	89.0%	-3.7%	6.8%	4.2%
Mar-05	88.8%	-2.9%	6.8%	4.4%
Apr-05	88.6%	-1.5%	6.7%	4.7%
May-05	88.3%	1.5%	6.7%	5.0%
Jun-05	88.1%	-2.0%	6.8%	5.1%

Source: IMS Health

LUMIGAN RX GROWTH SLOWING IN U.S.

Lumigan (for the treatment of glaucoma) sales this quarter were \$61.5 million (up 7%), \$5.5 million less than our forecast of \$67 million. During 2Q05, total prescriptions were down approximately 3% sequentially and up 10% year over year. For 2005 and 2006, we lowered our forecast to \$255 million (from \$275 million) and \$290 million (from \$315 million), respectively. According to IMS Health, prescription growth for Lumigan in the U.S. has slowed. While the product continues to do well outside the U.S., we believe the domestic market is still a major source of revenue for the product.

LUMIGAN TRX DATA



Source: IMS Health

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