

Allergan Inc

AGN

Restasis Kicker Drives Strong 2Q Upside Surprise

- Better-Than-Expected 2Q Results:** Allergan reported better-than-expected second quarter earnings of \$0.78 per share (\$0.05 above our estimate) on higher product sales of \$591 M (\$37.4 M above CSFB estimate). Core eye care sales tracked better-than-expected at \$325 million (\$19 M above CSFB estimate), largely based on exceptional Restasis (dry eye) sales of \$46.3 M (up 130% and \$14.3 M above CSFB estimate). Restasis realized sales tracked well above IMS 60% volume growth indicators, supported by new DTC advertising campaign momentum. Botox also registered strong sales of \$212.5 M, up 20% vs. only 17% in 1Q and beating CSFB targets by \$7.3 M. Botox has also benefited from re-invigorated DTC campaign initiatives.
- Core Portfolio Strength:** New promotional campaigns are effectively driving better-than-expected gains across Allergan's core pharmaceutical portfolio. Botox has re-established strength in core therapeutic markets, and appears to have strengthened its position in European cosmetic markets. Restasis has also emerged as a solid incremental earnings driver, with management elevating 2005 sales forecasts to a range of \$165-\$185 million.
- Earnings Revision and Target Price Adjustment:** We are raising our 2005 earnings forecast by \$0.04 to a new level of \$3.22 to reflect second quarter upside. We are also adjusting upward our earnings forecasts by \$0.08 to \$3.73 in 06 and by \$0.11 to \$4.30 in 07 due to an elevated 05 base. Upward earnings revisions also support an upward revision in our target price from a prior level of \$88 to a new level of \$95.
- While Allergan has re-invigorated growth behind key eye care products, our Neutral stance reflects on-going concerns over Botox growth reliance. We estimate Botox represents over 50% of Allergan's core earnings base.**

Allergan is a leading research-based specialty pharmaceutical company and is among the global leaders in ophthalmology (prescription drugs, OTC solutions, intraocular lenses).

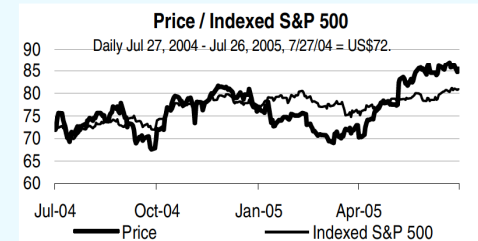
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Rating	NEUTRAL*
Price (26 Jul 05)	85.42 (US\$)
Target price (12 months)	95.00 (US\$)
52 week high - low	86.99 - 67.67
Market cap. (US\$m)	11,468.06
Enterprise value (US\$m)	11,468.06
Region / Country	Americas / United States
Sector	Specialty Pharmaceuticals
Analyst's Coverage Universe	Specialty Pharmaceuticals
Weighting (vs. broad market)	OVERWEIGHT
Date	27 July 2005

* Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.



On 07/26/05 the S&P 500 index closed at 1,236.79

Year	12/04A	12/05E	12/06E
EPS (CSFB adj., US\$)	2.77	3.22	3.73
Prev. EPS (US\$)		3.18	3.65
P/E (x)	30.8	26.5	22.9
P/E rel. (%)	168.4	161.7	151.7
Q1 EPS	0.60	0.76	0.85
Q2	0.64	0.78	0.92
Q3	0.67	0.78	0.96
Q4	0.86	0.89	1.00

Number of shares (m)	134.26	IC (12/05E, US\$m)	1,819.53
BV/Share (Current, US\$)	—	EV/IC (x)	6.3
Net Debt (Current, US\$m)	-167.0	Dividend (12/04A, US\$m)	0.39
Net debt/Total cap. (Current)	5.0%	Dividend yield	0.5%

Year	12/04A	12/05E	12/06E
Revenues (US\$m)	2,045.7	2,268.2	2,399.3
EBITDA (US\$m)	549.5	610.5	681.9
OCFPS (US\$)	—	—	—
P/OCF (x)	—	—	—
EV/EBITDA (x)	20.9	18.8	16.8
ROIC	—	13.2%	13.2%

Source: Company data, CREDIT SUISSE FIRST BOSTON (CSFB) estimates

Investment Summary

Allergan reported better-than-expected second quarter earnings of \$0.78 per share (\$0.05 above our estimate) on higher product sales of \$591 M (\$37.4 M above CSFB estimate). Core eye care sales tracked better-than-expected at \$325 million (\$19 M above CSFB estimate), largely based on exceptional Restasis (dry eye) sales of \$46.3 M (up 130% and \$14.3 M above CSFB estimate). Restasis realized sales tracked well above IMS 60% volume growth indicators, supported by new DTC advertising campaign momentum. Botox also registered strong sales of \$212.5 M, up 20% vs. only 17% in 1Q and beating CSFB targets by \$7.3 M. Botox has also benefited from re-invigorated DTC campaign initiatives.

Exhibit 1: Allergan Variance Table

Allergan	CSFB 2Q05E	Reported 2Q05A	Variance
Total Product Sales	\$ 553.7	\$ 591.0	\$ 37.4
Eye Care	\$ 306.0	\$ 325.0	\$ 19.0
Alphagan (total)	\$ 65.0	\$ 64.3	\$ (0.7)
Lumigan Line	\$ 64.0	\$ 61.5	\$ (2.5)
Restasis	\$ 32.0	\$ 46.3	\$ 14.3
Botox	\$ 205.2	\$ 212.5	\$ 7.3
Skin Care	\$ 30.4	\$ 30.4	\$ -
Cost of Revenues	\$ 94.1	\$ 94.1	\$ -
Gross Profit	\$ 452.3	\$ 479.3	\$ 27.0
Gross Margin	81.7%	81.1%	- 60 bps
SG&A	\$ 218.7	\$ 240.7	\$ 22.0
R&D	\$ 98.0	\$ 90.8	\$ (7.2)
Operating Income	\$ 135.6	\$ 147.8	\$ 12.2
Operating Margin	25.0%	26.0%	+ 98 bps
Other Income	\$ 1.9	\$ 0.8	\$ (1.1)
Taxes	\$ 39.9	\$ 44.6	\$ 4.7
Rate	29.0%	30.0%	+101 bps
Net Income	\$ 97.4	\$ 103.7	\$ 6.3
EPS	\$ 0.73	\$ 0.78	\$ 0.05
Shares	132.6	132.2	

Source: Company data, CSFB estimates

Allergan Core Franchise Performance

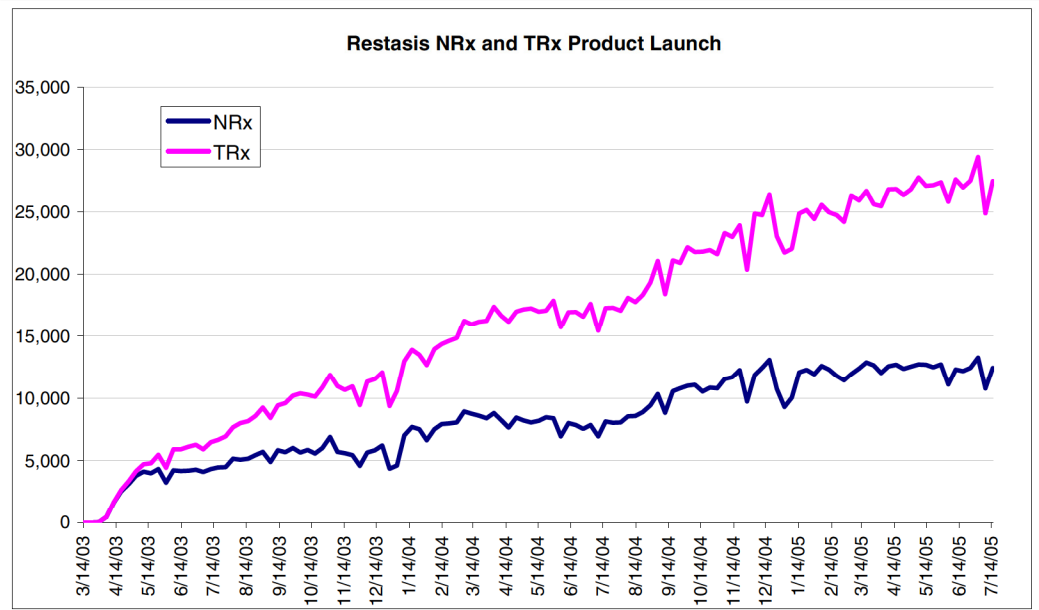
Restasis: Surprisingly Strong Sales in the Quarter

Restasis remains in a strong growth mode. IMS prescription trends continue to point to robust on-going uptake for Restasis in severe dry eye therapy. Allergan has been leveraging this momentum with the start of new DTC advertising in both print and TV channels.

Although Restasis total prescription trend in the quarter pointed to a 60% year-over-year growth rate, Allergan reported surprisingly strong sales of \$46.3 million, a 130% increase from the same period last year. Allergan raised price for Restasis by 3.5% in February this year.

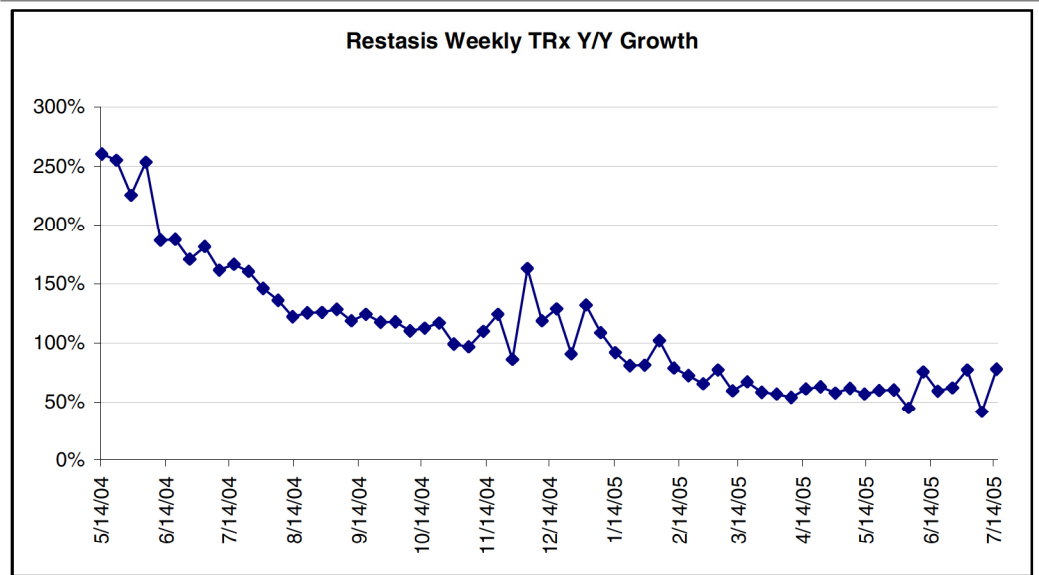
To reflect higher-than-expected Restasis sales in the second quarter, we are moving up our Restasis sales forecast from \$156 million to \$172 million for 2005, and from \$192 million to \$211 million in 2006.

Exhibit 2:



Source: Company data, CSFB estimates

Exhibit 3:

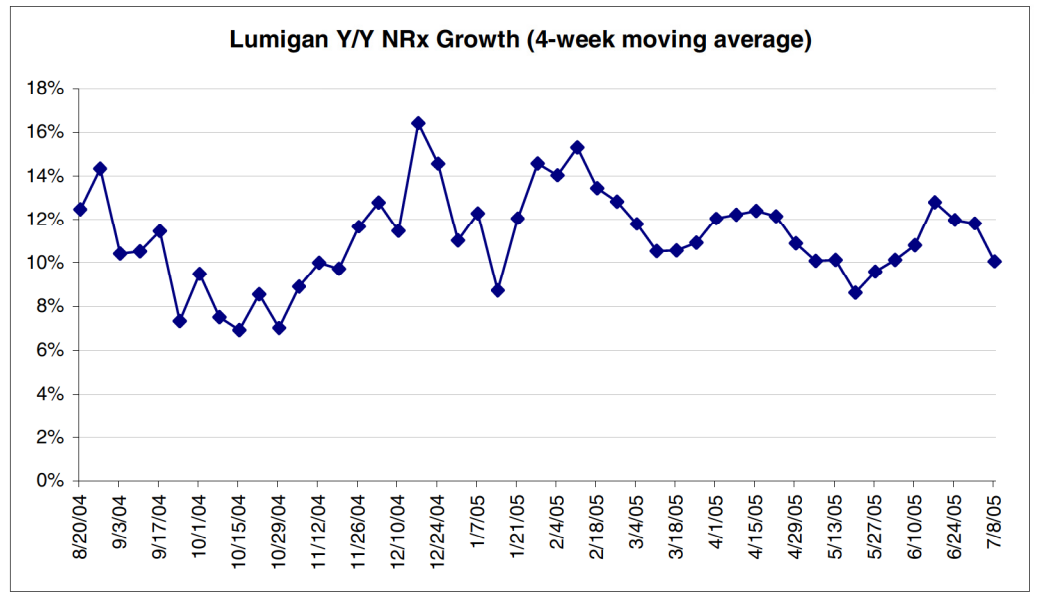


Source: Company data, CSFB estimates

Lumigan

Allergan reported slightly lower sales generated from Lumigan at \$61.5 million in the quarter. As shown in the relative growth chart below, the four-week moving average new prescription growth trends suggest Lumigan generating growth of about 10%-12% in volume terms.

Exhibit 4:

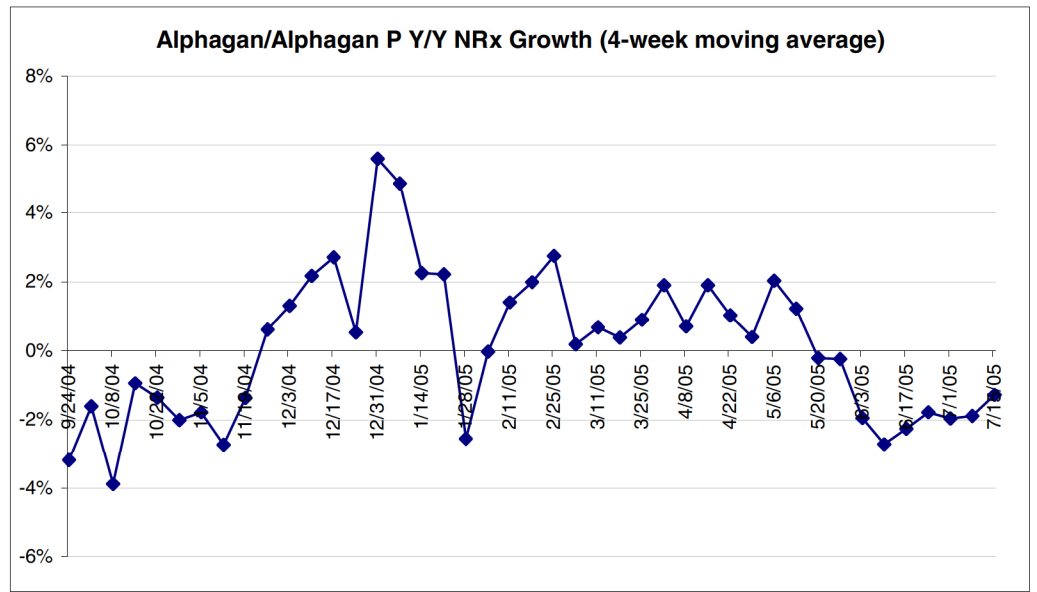


Source: Company data, CSFB estimates

Alphagan/Alphagan P

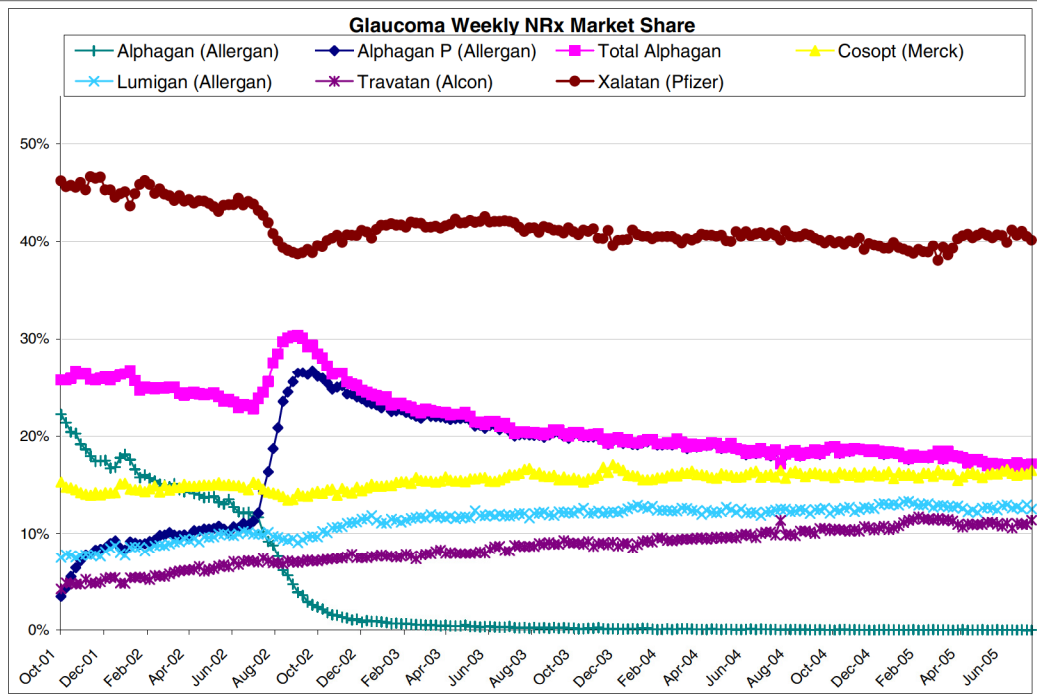
Allergan's Alphagan franchise has been losing ground largely to Pfizer's Xalatan. Chart 3 shows year-over-year new prescription growth rates of Alphagan/Alphagan P slid to the negative territory since May. Management expressed confidence that the FDA will approve a new Alphagan product formulation, Alphagan-Z, shortly. This product conversion strategy is largely expected to sustain core Alphagan franchise sales in the face of generic challenges from Alcon's Falcon generics operation.

Exhibit 5:



Source: Company data, CSFB estimates

Exhibit 6: Xalatan Gaining Shares At the Expense of Alphagan Franchise



Source: Company data, CSFB estimates

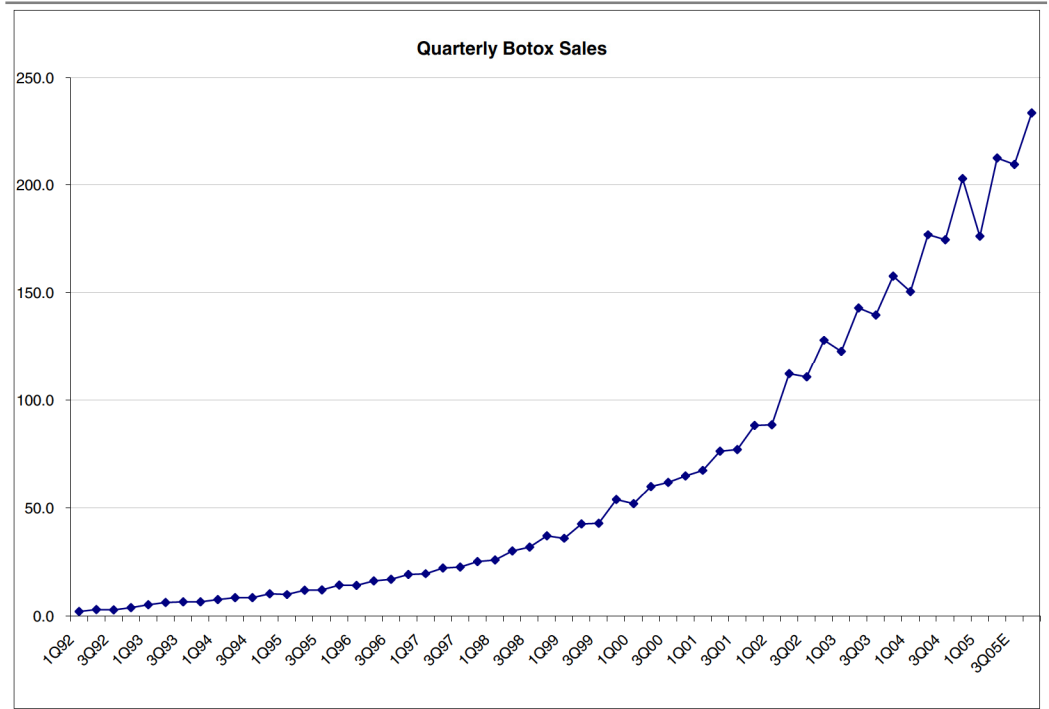
Botox

Botox remains a critical driver for Allergan, positioning to remain in a healthy growth mode in global cosmetic markets, considering its still early stage of introduction in Europe. This neurotoxin also possesses considerable opportunities in new therapeutic applications in new areas, such as hyperhidrosis and migraine headache therapy.

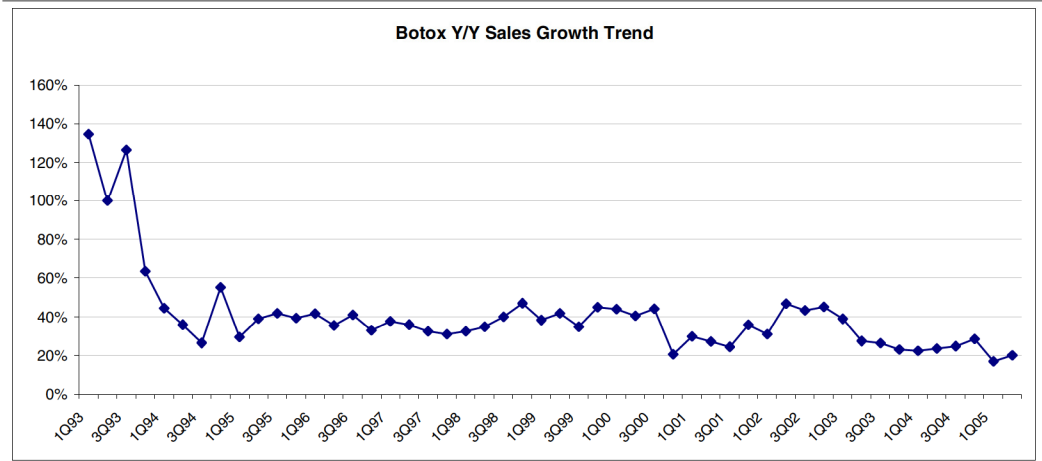
Allergan reported strong sales in Botox of \$212.5 million, up 20% vs. only 17% in 1Q (\$7.3 M above CSFB estimate), reflecting the re-introduction of the DTC campaign and the dissipation of the adverse publicity from an incident involving use of bogus Botox in Florida.

Allergan began a new national DTC campaign for Botox Cosmetic and regional ad campaign for Cosmetic Therapeutic (hyperhidrosis and cervical dystonia) in late March. To reflect the effective new Botox DTC campaign, we are raising our 05 sales forecast from \$818 million to \$832 million.

Exhibit 7:



Source: Company data, CSFB estimates

Exhibit 8:

Source: Company data, CSFB estimates

Earnings Revision and Target Price Adjustment

We are raising our 2005 earnings forecast by \$0.04 to a new level of \$3.22 to reflect second quarter's \$0.05 earnings upside. We are also adjusting upward our earnings forecasts by \$0.08 to \$3.73 in 06 and by \$0.11 to \$4.30 in 07 due to an elevated 05 base.

The elevation in Allergan's earnings foundation prompted us to raise our target price for the stock from a prior level of \$88 to a higher level of \$95.

Conclusion

New promotional campaigns are effectively driving better-than-expected gains across Allergan's core pharmaceutical portfolio. Botox has re-established strength in core therapeutic markets, and appears to have strengthened its position in European cosmetic markets. Restasis has also emerged as a solid incremental earnings driver, with management elevating 2005 sales forecasts to a range of \$165-\$185 million.

We are raising our 2005 earnings forecast by \$0.04 to a new level of \$3.22 to reflect second quarter upside. We are also adjusting upward our earnings forecasts by \$0.08 to \$3.73 in 06 and by \$0.11 to \$4.30 in 07 due to an elevated 05 base. Upward earnings revisions also support an upward revision in our target price from a prior level of \$88 to a new level of \$95.

While Allergan has re-invigorated growth behind key eye care products, our Neutral stance reflects on-going concerns over Botox growth reliance. We believe Botox represents over 50% of Allergan's core earnings base.

Exhibit 9: CSFB Value Equation Analysis

	Market Expectations	CSFB Expectations
Income Statement Data:		
Fiscal Year (Income statement date):	2006	2006
Sales (Income statement date):	2,399.3	2,399.3
EBITA	681.9	681.9
EBITA margin (%):	28.4%	28.4%
Tax rate:	28.5	28.5
Analyst EPS Estimate	\$3.71	\$3.70
Business Model Value Creation:		
EBITA (3-5 year) growth rate:	14.4	13.8
Pretax Capital Efficiency (ROIIC)	85.0	85.0
Note: Aftertax ROIIC (%)	61%	61%
Investment Neighborhood:		
Required Rate of Return (cost of capital):	11.50	11.50
C.A.P. (Duration of value creation):	Dec-2021	Dec-2021
CSFB Value-Equation Share Price Est.:		
Price Date:	27-Jul-05	27-Jul-06
Actual Price	\$89.20	\$95.06
Diff (%)	0%	7%

Source: Company data, CSFB estimates

Exhibit 10: Allergan Sales Analysis

	2004				2005							
	Mar-04 1QA	Jun-04 2QA	Sep-04 3QA	Dec-04 4QA	FY 2004	Mar-05 1QA	Jun-05 2QA	Sep-05 3QE	Dec-05 4QE	FY 2005	FY 2006	FY 2007
Eye Care Pharmaceuticals												
Alphagan	108.6	11.0	0.0	0.0	1.0	1.0	0.6	0.0	0.0	1.6	1.0	1.0
Alphagan-P/Z	140.0	275.8	68.3	65.2	288.9	64.7	62.0	60.0	50.0	236.7	170.2	144.7
Combigan	-	-	-	73.0	-	1.0	1.7	5.0	5.0	12.7	33.0	60.0
Alphagan (Total)	248.6	286.8	69.3	65.2	289.9	66.7	64.3	65.0	55.0	251.0	204.2	205.7
Lumigan	123.1	181.4	53.5	61.8	232.9	62.0	61.5	66.0	68.0	257.5	301.4	331.4
Lumigan/Timolol	123.1	181.4	53.5	61.8	232.9	62.0	61.5	66.0	68.0	257.5	309.1	355.4
Lumigan (Total)	371.7	468.2	127.7	131.3	521.9	133.3	130.2	136.0	128.0	528.5	533.3	581.1
Total Glaucoma	74.8	83.0	22.5	32.0	111.7	24.8	28.6	34.3	35.2	122.9	135.2	148.7
Acular/Acular PF (NSAID)												
Anti-Infective												
Ocuflox (anti-infective)	97.0	70.0	10.0	3.0	20.0	2.0	2.0	1.0	1.0	6.0	4.8	3.8
Zymar (Gatifloxacin)	-	35.0	15.0	23.0	76.0	24.8	25.0	24.0	25.3	99.1	109.0	114.5
Total anti-infective line	97.0	105.0	25.0	26.0	96.0	26.8	27.0	25.0	26.3	105.1	113.8	118.3
Betagan	14.0	11.5	2.0	3.0	11.0	2.0	3.0	3.0	3.0	11.0	11.0	11.0
Pred Forte	19.3	19.3	3.0	3.4	16.0	2.9	4.7	4.7	3.4	15.7	15.7	15.7
Dry Eye												
Restasis	-	38.4	21.3	34.3	99.8	37.3	46.3	45.0	43.0	171.6	211.1	236.4
INS365	-	-	-	-	-	-	-	-	-	-	-	-
Total Rx Dry Eye	-	38.4	21.3	34.3	99.8	37.3	46.3	45.0	43.0	171.6	211.1	236.4
Anti-histamine												
Alcicril	32.7	32.2	8.0	8.0	30.0	8.6	10.0	8.0	8.6	32.4	38.1	41.2
Elestat/Relestat (Epinastine)	-	5.0	5.6	10.0	29.6	7.3	10.4	9.0	13.0	39.7	51.6	67.1
Total Anti-histamine	32.7	37.2	13.6	18.0	59.6	15.9	20.4	17.0	21.6	72.1	89.7	108.2
Posurdex	-	-	-	-	-	-	-	-	-	-	-	35.0
Menantine	-	-	-	-	-	-	-	-	-	-	-	5.0
Artificial tears	163.0	173.0	45.0	42.0	170.0	43.0	50.0	50.0	42.0	185.0	165.0	155.0
Other	54.7	57.6	12.0	12.0	51.2	12.0	14.8	15.0	12.0	53.8	53.8	52.2
Total Eye Care Pharma	827.2	999.5	272.1	302.0	1,137.2	298.0	325.0	330.1	314.5	1,245.7	1,308.6	1,446.6
Botox	439.7	563.9	150.7	202.9	705.1	176.3	212.5	209.5	233.3	831.7	938.0	1,069.5
Total Botox Franchise Growth	42%	28%	22%	29%	25%	17%	20%	20%	15%	18%	13%	14%
Skin Care												
Tazorac cream/gel	62.1	65.9	16.7	19.5	69.7	21.0	20.5	22.0	21.5	85.0	89.2	93.7
Avage	-	14.3	1.3	1.6	5.4	1.6	1.5	1.5	2.0	6.6	8.0	10.0
Prevage	-	-	-	-	-	0.5	0.5	0.5	0.7	2.2	3.0	4.0
Tazorac oral	-	-	-	-	-	-	-	-	-	-	-	-
Other	28.1	29.1	6.7	8.4	29.0	6.7	7.9	6.0	8.4	29.0	29.0	29.0
Total Skin Care	90.2	109.3	24.7	29.5	104.1	29.8	30.4	30.0	32.6	122.8	129.2	136.7
Year-over-year Growth	14%	21%	-5%	0%	-5%	21%	25%	21%	10%	18%	5%	6%
Total Pharmaceuticals	1,357.1	1,672.7	447.5	534.4	1,946.4	504.1	567.9	569.6	580.4	2,200.1	2,375.7	2,652.8
Year-over-year Growth	19%	23%	21%	16%	16%	13%	19%	17%	9%	13%	8%	12%

Source: Company data, CSFB estimates

Exhibit 11: Allergan Income Statement Analysis

	2004				2005								
	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05					
	1QA	2QA	3QA	4QA	1QA	2QA	3QE	4QE					
Total Product Sales	1,357.1	1,672.7	447.5	478.9	484.8	534.4	1,945.7	504.1	567.9	580.4	2,222.0	2,399.3	2,679.2
Contract Sales	63.6	82.7	24.9	27.3	26.0	21.8	100.0	23.1	23.1	0.0	46.2	0.0	0.0
Total Sales	1,420.7	1,755.4	472.4	506.2	510.8	556.2	2,045.7	591.0	569.6	580.4	2,268.2	2,399.3	2,679.2
Cost of Revenues	253.6	320.3	87.6	96.2	99.1	103.8	386.7	94.1	111.7	108.2	421.4	427.5	455.5
Gross Profit	1,167.1	1,435.1	384.8	410.0	411.7	452.4	1,659.0	433.1	479.3	473.0	1,846.8	1,971.8	2,223.7
Total Gross Profit	1,170.8	1,436.6	384.8	410.0	411.7	452.4	1,659.0	433.1	479.3	461.4	1,846.8	1,971.8	2,223.7
SG&A	596.7	693.6	180.6	196.7	195.5	206.1	778.9	210.1	240.7	210.7	863.5	896.6	996.6
Research & Development	230.9	305.5	86.1	88.5	83.0	88.0	345.6	81.9	90.8	106.5	387.7	408.2	455.5
Operating income/EBIT	343.2	437.5	118.1	124.8	133.2	158.3	534.5	141.1	147.8	144.1	595.5	666.9	771.7
Interest Expense	-19.4	-15.6	-3.7	-3.7	-6.8	-3.9	-18.1	-4.5	-4.6	-3.1	-15.3	-12.5	-12.5
Interest Income	18.7	13.0	2.0	2.2	2.6	7.3	14.1	5.4	6.1	4.3	20.5	20.4	24.5
Other	0.7	-5.6	-2.5	-1.2	-1.4	0.3	-4.8	1.0	-0.7	1.0	2.3	12.0	4.0
Total other income (expense)	0.0	-8.2	-4.2	-2.7	-5.6	3.7	-8.8	1.9	0.8	2.2	7.5	19.9	16.1
Pretax income	343.2	429.3	113.9	122.1	127.6	162.0	525.7	143.0	148.6	146.3	603.0	686.9	787.8
Provision for income taxes	96.3	123.4	34.2	36.4	38.4	46.8	155.8	41.7	44.6	42.4	46.6	175.3	224.5
Minority Interest	0.7	0.8	0.3	0.4	0.2	0.3	1.2	0.3	0.3	0.3	1.2	1.2	1.2
Net Income	246.2	305.1	79.4	85.3	89.0	114.9	368.7	101.0	103.7	103.6	426.5	489.9	562.1
Average shares	131.5	132.5	133.0	133.7	132.2	133.0	133.0	132.6	132.2	132.2	132.2	131.4	130.6
Earnings per share	1.87	2.30	0.60	0.64	0.67	0.86	2.77	0.76	0.78	0.78	3.22	3.73	4.30
Margin Analysis													
Gross margin	82.2%	81.8%	81.5%	81.0%	80.6%	81.3%	81.1%	82.2%	81.1%	81.0%	81.5%	81.4%	83.0%
Gross Margin (Pharma)			85.4%	85.0%	84.4%	84.2%	84.8%	85.5%	84.0%	81.0%	81.5%	83.1%	
Gross Margin (Contract)			10.0%	10.0%	10.0%	10.0%	38.1%	10.0%	10.0%	37.0%	34.8%	38.1%	37.2%
SG&A % sales	42.0%	39.5%	38.2%	38.9%	38.3%	37.1%	40.0%	39.9%	40.7%	37.0%	34.8%	38.9%	37.4%
SG&A % pharma sales	44.0%	41.5%	40.4%	41.1%	40.3%	38.6%	40.0%	41.7%	42.4%	37.0%	34.8%	38.9%	37.4%
R&D % sales	16.3%	17.4%	18.2%	17.5%	16.2%	15.8%	16.9%	15.5%	15.4%	18.7%	18.7%	17.1%	17.0%
R&D % pharma sales	17.0%	18.3%	19.2%	18.5%	17.1%	16.5%	17.8%	16.2%	16.0%	18.7%	18.7%	17.5%	17.0%
Operating margin	24.2%	24.9%	26.4%	26.1%	27.5%	29.6%	26.1%	28.0%	26.0%	25.3%	28.0%	26.3%	28.8%
Pre-tax margin	24.2%	24.5%	25.5%	25.5%	26.3%	30.3%	25.7%	28.4%	26.2%	25.7%	28.4%	26.6%	29.4%
Tax rate	28.1%	28.7%	30.0%	29.8%	30.1%	28.9%	29.6%	29.2%	30.0%	29.0%	28.2%	29.1%	28.5%
Net margin	17.3%	17.4%	17.7%	17.8%	18.4%	21.5%	18.0%	20.0%	18.3%	18.2%	20.4%	18.8%	21.0%
Year/Year Changes													
Sales	19%	23%	21%	14%	15%	16%	16.3%	12.6%	18.6%	17.5%	8.6%	14.2%	11.7%
Gross profit	23%	23%	19%	13%	14%	16%	15.5%	12.6%	16.9%	12.1%	4.6%	11.3%	12.8%
SG&A	19%	16%	6%	7%	15%	22%	12.3%	16.3%	22.4%	7.8%	-2.0%	10.9%	11.1%
R&D	23%	32%	54%	15%	2%	-4%	13.1%	-4.9%	2.6%	28.3%	23.3%	12.2%	11.6%
Net income	25%	24%	12%	22%	17%	30%	20.8%	27.2%	21.6%	16.3%	2.9%	15.7%	14.7%
Earnings per share	27%	23%	11%	21%	18%	29%	20.4%	27.6%	23.0%	16.3%	3.5%	16.3%	15.5%

Source: Company data, CSFB estimates

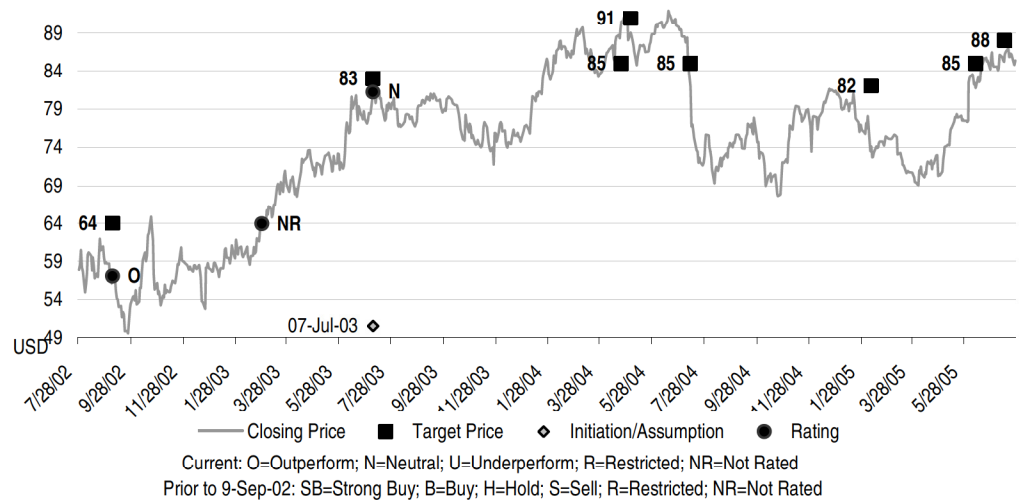
Companies Mentioned (Price as of 27 Jul 05)

Allergan Inc (AGN, \$85.42, NEUTRAL, TP \$88.00, OVERWEIGHT)

Disclosure Appendix**Important Global Disclosures**

I, Ken Kulju, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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3-Year Price, Target Price and Rating Change History Chart for AGN

AGN Date	Closing Price (US\$)	Target Price (US\$)	Rating	Initiation/Assumption
9/6/02	57.09	64	OUTPERFORM	
2/27/03	63.89		NOT RATED	
7/7/03	81.21	83	NEUTRAL	X
4/22/04	90.64	85		
5/3/04	89.1	91		
7/12/04	81.91	85		
2/8/05	74.12	82		
6/10/05	81.75	85		
7/14/05	86.2	88		

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Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

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Price Target: (12 months) for (AGN)

Method: CSFB Value Equation

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