The Street Ratings

October 31, 2018

NYSE: AGN

ALLERGAN PLC

AGN BUSINESS DESCRIPTION
Allergan plc, a pharmaceutical company, develops, manufactures, and commercializes branded pharmaceutical, device, biologic, surgical, and regenerative medicine products worldwide. It operates through US Specialized Therapeutics, US General Medicine, and International segments.

STOCK PERFORMANCE (%)

3 Mo. 1 Yr. 3 Yr (Ann)
Price Change -12.68 -10.06 -19.54

GROWTH (%)

Last Qtr 12 Mo. 3 Yr CAGR
Revenues -3.05 3.58 11.72
Net Income 99.05 132.07 -15.21
EPS 99.09 133.15 39.62

RETURN ON EQUITY (%)

AGN Ind Avg S&P 500
Q3 2018 3.67 7.85 14.82
Q3 2017 -10.60 22.11 13.41
Q3 2016 -2.19 9.81 11.79

P/E COMPARISON

AGN Ind Avg S&P 500
21.48 84.28 21.90

EPS ANALYSIS¹ ($)

Q1 -0.41 Q2 -0.25 Q3 -0.22 Q4 0.21 0.17 0.23 0.97 0.93 1.72 1.28 2.35 2.16 2.11 2016 2017 2018

HIGHLIGHTS

The net income growth from the same quarter one year ago has significantly exceeded that of the S&P 500 and the Pharmaceuticals industry. The net income increased by 99.0% when compared to the same quarter one year prior, rising from -$3,955.70 million to -$37.90 million.

The current debt-to-equity ratio, 0.33, is low and is below the industry average, implying that there has been successful management of debt levels.

ALLERGAN PLC reported significant earnings per share improvement in the most recent quarter compared to the same quarter a year ago. This company has reported somewhat volatile earnings recently. But, we feel it is poised for EPS growth in the coming year. During the past fiscal year, ALLERGAN PLC reported poor results of -$12.28 versus -$3.12 in the prior year. This year, the market expects an improvement in earnings ($16.38 versus -$12.28).

Net operating cash flow has declined marginally to $1,443.00 million or 1.99% when compared to the same quarter last year. Despite a decrease in cash flow of 1.99%, ALLERGAN PLC is still significantly exceeding the industry average of -71.65%.

AGN has underperformed the S&P 500 Index, declining 10.06% from its price level of one year ago. The fact that the stock is now selling for less than others in its industry in relation to its current earnings is not reason enough to justify a buy rating at this time.

RECOMMENDATION

We rate ALLERGAN PLC (AGN) a HOLD. The primary factors that have impacted our rating are mixed - some indicating strength, some showing weaknesses, with little evidence to justify the expectation of either a positive or negative performance for this stock relative to most other stocks. The company’s strengths can be seen in multiple areas, such as its compelling growth in net income, largely solid financial position with reasonable debt levels by most measures and reasonable valuation levels. However, as a counter to these strengths, we also find weaknesses including a generally disappointing performance in the stock itself and weak operating cash flow.

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¹ Compustat fiscal year convention is used for all fundamental data items.
The Street Ratings

ALLERGAN PLC

Sector: Health Care | Pharmaceuticals | Source: S&P

INDUSTRY ANALYSIS

US pharmaceutical companies are involved in the discovery, manufacturing, distribution, and research of generic and branded drugs. The industry accounts for 27.3% of the healthcare sector and is capital-intensive with exorbitant R&D costs. Most companies are mature and characterized by high margins and higher dividend pay-outs. Major players include Pfizer (PFE), Bristol-Myers Squibb (BMY), Abbott Laboratories (ABT), and Eli Lilly (LLY). The industry employs more than 400,000 in the US. The 50 largest companies control over 80% of the market.

The industry faces unprecedented challenges from stringent environmental regulations and patent expirations on billion-dollar products. Industry experts believe that generic competition will wipe out more than $60 billion from US industry sales over the next five years as more than three dozen drugs lose patent protection. Merck lost a $3 billion patent protection for its osteoporosis drug Fosamix in 2008 while Eli Lilly lost an estimated 90% of Zyprexa sales. The FDA is rejecting more drugs on safety concerns and a lack of compelling evidence of definite advancement from existing drugs.

The US government enacted the Medicare Prescription Drug, Improvement, and Modernization Act (MMA) in 2003 to provide prescription drug benefits to the elderly and disabled. Medicare Part D, a component of MMA, which came into effect in 2006, altered the revenue model of pharma companies.

Horizontal and vertical integration has created health maintenance organizations (HMOs) and pharmacy benefit management firms (PBMs). In order to cut costs and remain competitive, the US pharma majors have been outsourcing research to low-cost service providers in India and China.

The promising era of personalized medicine has begun. Dozens of exciting new drugs for the treatment of dire diseases such as cancer, AIDS, Parkinson’s, and Alzheimer’s are either on the market or are very close to regulatory approval. The industry has shifted its focus from blockbuster drugs (chemistry-based drugs) to specialized products, geared towards specific disorders. Growth in American drug purchases will continue to be supported by a rapidly aging population, inflation, and the introduction of expensive new drugs.

PEER GROUP: Pharmaceuticals

Ticker | Company Name | Recent Price ($) | Market Cap ($M) | Price/Earnings | Net Sales TTM ($M) | Net Income TTM ($M)
---|---|---|---|---|---|---
AGN | ALLERGAN PLC | 160.67 | 54,538 | 21.48 | 16,033.80 | 2,132.80
AZN | ASTRAZENECA PLC | 38.45 | 97,416 | 35.93 | 23,475.00 | 2,677.00
PFGO | PERRIGO CO PLC | 69.79 | 9,550 | 42.04 | 4,917.70 | 234.50
JAZZ | JAZZ PHARMACEUTICALS PLC | 155.53 | 9,395 | 22.00 | 1,793.35 | 434.05
BMY | BRISTOL-MYERS SQUIBB CO | 50.02 | 81,846 | 56.84 | 22,037.00 | 1,432.00
NVO | NOVO NORDISK A/S | 42.57 | 81,418 | 16.37 | 17,780.75 | 6,373.48
ZTS | ZOETIS INC | 90.18 | 43,451 | 39.55 | 5,601.00 | 1,115.00
TEVA | TEVA PHARMACEUTICALS | 19.76 | 20,125 | NM | 20,835.00 | -9,996.00
MYL | MYLAN NV | 31.31 | 16,142 | 36.41 | 17,873.90 | -143.80
LLY | LILLY (ELI) & CO | 108.34 | 116,356 | NM | 23,873.90 | -143.80
SNI | SANOFI | 42.23 | 108,227 | 27.02 | 42,555.18 | 4,525.14

The peer group comparison is based on Major Pharmaceuticals companies of comparable size.
COMPANY DESCRIPTION

Allergan plc, a pharmaceutical company, develops, manufactures, and commercializes branded pharmaceutical, device, biologic, surgical, and regenerative medicine products worldwide. It operates through US Specialized Therapeutics, US General Medicine, and International segments. The company offers a portfolio of products for the central nervous system, eye care, medical aesthetics and dermatology, gastroenterology, women’s health, urology, and anti-infective therapeutic categories. It also provides breast implants and tissue expanders; RYR-131 (relamorelin), a peptide ghrelin agonist for the treatment of diabetic gastroparesis; ocular implants; and Kybella, a non-surgical treatment for submental fullness. In addition, the company develops therapies for non-alcoholic steatohepatitis and other liver diseases; treatments for neurodegenerative disorders, including Alzheimer’s disease; small molecule therapeutics that target inflammatory and fibrotic diseases; and delivery system and botulinum toxin-based prescription products. It has collaboration, option, and license agreement with Lyndra, Inc.; strategic alliance and option agreement with Editas Medicine, Inc.; and licensing agreements with MedImmune, and Heptares Therapeutics, Ltd. The company was formerly known as Actavis plc and changed its name to Allergan plc in June 2015. Allergan plc was founded in 1983 and is headquartered in Dublin, Ireland.

STOCK-AT-A-GLANCE

Below is a summary of the major fundamental and technical factors we consider when determining our overall recommendation of AGN shares. It is provided in order to give you a deeper understanding of our rating methodology as well as to paint a more complete picture of a stock’s strengths and weaknesses. It is important to note, however, that these factors only tell part of the story. To gain an even more comprehensive understanding of our stance on the stock, these factors must be assessed in combination with the stock’s valuation. Please refer to our Valuation section on page 5 for further information.

FACTOR AT A GLANCE

<table>
<thead>
<tr>
<th>Factor</th>
<th>Score</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>3.0</td>
<td>strong</td>
</tr>
<tr>
<td>Total Return</td>
<td>1.5</td>
<td>strong</td>
</tr>
<tr>
<td>Efficiency</td>
<td>2.0</td>
<td>strong</td>
</tr>
<tr>
<td>Price volatility</td>
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<td>strong</td>
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<tr>
<td>Solvency</td>
<td>5.0</td>
<td>strong</td>
</tr>
<tr>
<td>Income</td>
<td>3.5</td>
<td>strong</td>
</tr>
</tbody>
</table>

THE STREET RATINGS RESEARCH METHODOLOGY

TheStreet Ratings’ stock model projects a stock’s total return potential over a 12-month period including both price appreciation and dividends. Our Buy, Hold or Sell ratings designate how we expect these stocks to perform against a general benchmark of the equities market and interest rates. While our model is quantitative, it utilizes both subjective and objective elements. For instance, subjective elements include expected equities market returns, future interest rates, implied industry outlook and forecasted company earnings. Objective elements include volatility of past operating revenues, financial strength, and company cash flows.

Our model gauges the relationship between risk and reward in several ways, including: the pricing drawdown as compared to potential profit volatility, i.e. how much one is willing to risk in order to earn profits; the level of acceptable volatility for highly performing stocks; the current valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s valuation as compared to projected earnings growth; and the financial strength of the underlying company as compared to its stock’s performance. These and many more derived observations are then combined, ranked, weighted, and scenario-tested to create a more complete analysis. The result is a systematic and disciplined method of selecting stocks.

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ALLERGAN PLC

Sector: Health Care | Pharmaceuticals | Source: S&P

<table>
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<tr>
<th>Annual Dividend Rate</th>
<th>Annual Dividend Yield</th>
<th>Beta</th>
<th>Market Capitalization</th>
<th>52-Week Range</th>
<th>Price as of 10/30/2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2.88</td>
<td>1.79%</td>
<td>1.20</td>
<td>$54.5 Billion</td>
<td>$142.81-$197.00</td>
<td>$160.67</td>
</tr>
</tbody>
</table>

Consensus EPS Estimates² ($)
IBES consensus estimates are provided by Thomson Financial

Q4 FY18       16.38 E       16.65 E

INCOME STATEMENT
Q3 FY18      Q3 FY17
Net Sales ($mil) 3,911.40 4,034.30
EBITDA ($mil) 1,898.60 1,940.20
EBIT ($mil) 265.60 117.20
Net Income ($mil) -37.90 -3,955.70

BALANCE SHEET
Q3 FY18      Q3 FY17
Cash & Equiv. ($mil) 1,209.90 5,441.80
Total Assets ($mil) 106,542.50 118,992.80
Total Debt ($mil) 23,583.40 30,336.10
Equity ($mil) 70,520.90 71,159.40

PROFITABILITY
Q3 FY18      Q3 FY17
Gross Profit Margin 86.31% 86.82%
EBITDA Margin 48.54% 48.09%
Operating Margin 6.79% 2.91%
Sales Turnover 0.15 0.13
Return on Assets 2.18% -6.09%
Return on Equity 3.67% -10.60%

DEBT
Q3 FY18      Q3 FY17
Current Ratio NA 1.18
Debt/Capital 0.25 0.30
Interest Expense 220.40 265.20
Interest Coverage 1.21 0.44

SHARE DATA
Q3 FY18      Q3 FY17
Shares outstanding (mil) 339 333
Div / share 0.72 0.70
EPS -0.11 -12.05
Book value / share 207.94 213.95
Institutional Own % NA NA
Avg Daily Volume 1,857,042 2,292,094

2 Sum of quarterly figures may not match annual estimates due to use of median consensus estimates.

FINANCIAL ANALYSIS
ALLERGAN PLC’s gross profit margin for the third quarter of its fiscal year 2018 is essentially unchanged when compared to the same period a year ago. Even though sales decreased, the net income has increased.

During the same period, stockholders’ equity (“net worth”) has remained unchanged from the same quarter last year.

STOCKS TO BUY: TheStreet Quant Ratings has identified a handful of stocks that can potentially TRIPLE in the next 12-months. To learn more visit www.TheStreetRatings.com.
ALLERGAN PLC

Sector: Health Care | Pharmaceuticals | Source: S&P

Annual Dividend Rate: $0.88
Annual Dividend Yield: 1.79%

Beta: 1.20
Market Capitalization: $54.5 Billion
52-Week Range: $142.81-$197.00
Price as of 10/30/2018: $160.67

RATINGS HISTORY
Our rating for ALLERGAN PLC was recently upgraded from Sell to Hold on 8/21/2018. As of 10/30/2018, the stock was trading at a price of $160.67 which is 18.5% below its 52-week high of $197.00 and 12.5% above its 52-week low of $142.81.

VALUATION
HOLD: The current P/E ratio indicates a significant discount compared to an average of 84.28 for the Pharmaceuticals industry and a value on par with the S&P 500 average of 21.90. For additional comparison, its price-to-book ratio of 0.77 indicates a significant discount versus the S&P 500 average of 3.14 and a significant discount versus the industry average of 10.06. The price-to-sales ratio is well above the S&P 500 average, but well below the industry average. Upon assessment of these and other key valuation criteria, ALLERGAN PLC proves to trade at a discount to investment alternatives within the industry.

Price/Earnings 1 2 3 4 5
AGN 21.48 Peers 84.28
• Discount. A lower P/E ratio than its peers can signify a less expensive stock or lower growth expectations.
• AGN is trading at a significant discount to its peers.

Price/Projected Earnings 1 2 3 4 5
AGN 5.65 Peers 14.90
• Discount. A lower price-to-projected earnings ratio than its peers can signify a less expensive stock or lower future growth expectations.
• AGN is trading at a significant discount to its peers.

Price/Book 1 2 3 4 5
AGN 0.77 Peers 10.06
• Discount. A lower price-to-book ratio makes a stock more attractive to investors seeking stocks with lower market values per dollar of equity on the balance sheet.
• AGN is trading at a significant discount to its peers.

Price/Sales 1 2 3 4 5
AGN 3.40 Peers 47.09
• Discount. In the absence of P/E and P/B multiples, the price-to-sales ratio can display the value investors are placing on each dollar of sales.
• AGN is trading at a significant discount to its industry on this measurement.

Price/CashFlow 1 2 3 4 5
AGN 8.69 Peers 15.79
• Discount. The P/CF ratio, a stock’s price divided by the company’s cash flow from operations, is useful for comparing companies with different capital requirements or financing structures.
• AGN is trading at a significant discount to its peers.

Earnings Growth 1 2 3 4 5
AGN NM Peers 0.76
• Neutral. The PEG ratio is the stock’s P/E divided by the consensus estimate of long-term earnings growth. Faster growth can justify higher price multiples.
• AGN’s negative PEG ratio makes this valuation measure meaningless.

Price to Earnings/Growth 1 2 3 4 5
AGN 133.15 Peers 14.26
• Higher. Elevated earnings growth rates can lead to capital appreciation and justify higher price-to-earnings ratios.
• AGN is expected to have an earnings growth rate that significantly exceeds its peers.

Sales Growth 1 2 3 4 5
AGN 3.58 Peers 12.78
• Lower. A sales growth rate that trails the industry implies that a company is losing market share.
• AGN significantly trails its peers on the basis of sales growth

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