Allergan posted better-than-expected third quarter earnings of $1.78 per share, surpassing the Zacks Consensus Estimate of $1.76. While earnings climbed 44.7% year over year, revenues increased 16.6% to $1,817.1 million, above the Zacks Consensus Estimate of $1,770 million. Allergan upped its 2014 earnings per share guidance again to $6.27–$6.30. Allergan's restructuring plans, which involve cutting its workforce by 13% and reducing R&D and other expenditure, will aid the bottom line. Meanwhile, in Nov 2014, Allergan agreed to be acquired by Actavis in a cash and stock transaction valued at about $66 billion or $219 per share. With the acquisition slated to close in the second quarter of 2015, we maintain a Neutral recommendation on the stock.

SUMMARY DATA

- 52-Week High: $214.00
- 52-Week Low: $101.13
- One-Year Return (%): 97.47
- Beta: 0.75
- Average Daily Volume (sh): 2,457,422
- Shares Outstanding (mil): 298
- Market Capitalization ($mil): 63,364
- Short Interest Ratio (days): 1.18
- Institutional Ownership (%): 91
- Insider Ownership (%): 2
- Annual Cash Dividend: $0.20
- Dividend Yield (%): 0.09
- 5-Yr. Historical Growth Rates:
  - Sales (%): 8.9
  - Earnings Per Share (%): 15.3
  - Dividend (%): 0.0
- P/E using TTM EPS: 36.5
- P/E using 2014 Estimate: 33.8
- P/E using 2015 Estimate: 24.9
- Zacks Rank *: Short Term 1 – 3 months outlook: 2 - Buy

* Definition / Disclosure on last page

ZACKS CONSENSUS ESTIMATES

Revenue Estimates
(In millions of $)

<table>
<thead>
<tr>
<th></th>
<th>Q1 (Mar)</th>
<th>Q2 (Jun)</th>
<th>Q3 (Sep)</th>
<th>Q4 (Dec)</th>
<th>Year (Dec)</th>
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<td>2012</td>
<td>1,392 A</td>
<td>1,491 A</td>
<td>1,414 A</td>
<td>1,472 A</td>
<td>5,647 A</td>
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<tr>
<td>2013</td>
<td>1,460 A</td>
<td>1,598 A</td>
<td>1,559 A</td>
<td>1,684 A</td>
<td>6,300 A</td>
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<td>2014</td>
<td>1,646 A</td>
<td>1,855 A</td>
<td>1,817 A</td>
<td>1,883 E</td>
<td>7,201 E</td>
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<td>2015</td>
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<td>2,028 E</td>
<td>2,017 E</td>
<td>2,049 E</td>
<td>7,936 E</td>
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Note: Numbers have been adjusted to reflect the impact of the sales of the obesity segment.

Earnings Per Share Estimates
(EPS is operating earnings before non-recurring items, but including employee stock options expenses)

<table>
<thead>
<tr>
<th></th>
<th>Q1 (Mar)</th>
<th>Q2 (Jun)</th>
<th>Q3 (Sep)</th>
<th>Q4 (Dec)</th>
<th>Year (Dec)</th>
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<tr>
<td>2012</td>
<td>$0.86 A</td>
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<td>2014</td>
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<td>$2.10 E</td>
<td>$2.16 E</td>
<td>$2.50 E</td>
<td>$8.53 E</td>
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Note: Numbers have been adjusted to reflect the impact of the sales of the obesity segment.

Projected EPS Growth - Next 5 Years % 17
Headquartered in Irvine, CA, Allergan, Inc., a global multi-specialty pharmaceutical company, develops and commercializes innovative products for eye care, neurological, medical aesthetics, medical dermatology, breast aesthetics, urological and other specialty markets. In addition to its discovery-to-development research programs, Allergan has global marketing and sales capabilities in over 100 countries.

The company operates through two business segments: specialty pharmaceuticals and medical devices. While the specialty pharmaceuticals segment includes ophthalmic, skin care as well as other prescription and over-the-counter dermatological products, Botox and urologics products, the medical devices segment includes breast implantation and dermal fillers.

The medical devices segment was created through the company’s Mar 2006 acquisition of global healthcare company Inamed Corporation. The specialty pharmaceuticals segment contributed about 84.7% to total revenues in 2013, with sales coming in at $5.3 billion. Botox, a key product in this segment, posted sales of $1.98 billion in 2013. Sales from the medical devices segment came in at $858.5 million in 2013.

In Dec 2013, Allergan sold its obesity intervention business which had been performing badly over the past few years.

In Dec 2012, the company bought a privately held company, SkinMedica, Inc. to acquire the latter’s topical aesthetics skin care business. In Mar 2013, Allergan acquired Map Pharmaceuticals, which is now a wholly owned subsidiary of Allergan.

In Nov 2014, Allergan agreed to be acquired by Actavis in a cash and stock transaction ($129.22 in cash and 0.3683 Actavis shares for each share of Allergan common stock) valued at about $66 billion or $219 per share. Brent Saunders, Actavis’ CEO and President, will lead the combined company. The acquisition is slated to close in the second quarter of 2015.

**REASONS TO BUY**

- **Strong Growth Prospects:** Allergan looks poised for growth in the coming years. In addition to raising its guidance consistently for 2014 ($6.27 - $6.30 per share), Allergan’s earnings forecasts for 2015 (about $8.60 per share) and 2016 (about $10.25 per share) represent strong growth rates. New product approvals and the ongoing strength of the current business should help the company achieve its growth targets.

  Allergan has also announced restructuring plans under which the workforce will be cut by 13% (1,500 employees) and 250 vacant positions will be eliminated. The restructuring plan is expected to deliver annual pre-tax savings of approximately $475 million in 2015. Allergan plans to streamline its organizational structure and focus on high value opportunities.

- **Botox Going Strong:** The company’s key product, Botox, generated revenues of $1.98 billion in 2013 (up 12.2%), representing almost 32% of net product sales and approved for about 28 indications across the world. Therapeutic indications account for more than half of Botox sales. Allergan expects Botox sales in the range of $2.2 billion - $2.244 billion in 2014. We believe the company’s label expansion efforts will drive sales further with approval for additional indications.

- **Restasis Could Remain Exclusive:** Allergan is working on protecting Restasis from generics. The company announced the listing of three new patents (two formulation and one method of use
patent) for Restasis. The addition of these patents to the Orange Book will allow Restasis to enjoy a few more years of exclusivity. Allergan has also filed a Citizen’s Petition with the FDA.

- **Focus on New Therapeutic Areas:** Allergan has been expanding into new therapeutic areas through acquisitions and collaboration agreements over the past few years. In Mar 2013, Allergan acquired MAP Pharma and gained exclusive rights to migraine candidate, Semprana (formerly known as Levadex), in the U.S. Semprana is being developed for the treatment of adults suffering from acute migraine. Semprana’s approval would be a major boost for Allergan and will complement the company’s neurology portfolio, which includes Botox.

Allergan’s Mar 2006 acquisition of global healthcare company, Inamed Corporation, allowed the company to expand its product portfolio significantly. Thanks to this acquisition, Allergan now has products for breast implantation and dermal fillers (including Juvederm). Other acquisitions completed by Allergan in the last few years include those of SkinMedica, Inc. (focused on topical aesthetics skin care business), Groupe Corneal Laboratories, the company’s partner and licensor of Juvederm dermal fillers in the U.S., Canada, and Australia; Swiss medical technology developer EndoArt SA (specializes in the development of remote-controlled implants used in the treatment of morbid obesity and other conditions); U.S.-based pharmaceutical company Esprit Pharma; dermatology company, Vicept Therapeutics and medical device company, Serica Technologies, Inc.

Collaboration agreements include Allergan’s licensing agreement with Serenity Pharmaceuticals for the development and commercialization of SER-120 for nocturia (phase III). Moreover, Allergan signed agreements with Molecular Partners for DARPin for serious ophthalmic diseases and MP0112 for the treatment of retinal diseases and other candidates.

- **Pipeline Expansion Efforts:** Allergan is working on expanding its pipeline, and new product launches should help support growth in the coming years. We are also pleased to see the company seek/gain label expansions for existing products like Ozurdex (label expanded for diabetic macular edema) and Botox among others, which should also help drive growth. In Sep 2013, Botox gained FDA approval for crow’s feet lines.

Botox’s label expansion into chronic migraine, overactive bladder and upper limb spasticity represent significant potential. We expect Botox to remain a major contributor to sales. Allergan has plans to study Botox for additional indications like juvenile cerebral palsy (phase III), depression (phase II) and osteoarthritis pain (phase II). Botox X is slated to enter the clinic soon. Meanwhile, Allergan gained FDA approval for Juvéderm Voluma XC for cheek augmentation to correct age-related volume deficit in the mid-face.

Other late-stage pipeline candidates include abicipar pegol (anti-VEGF DARPin), which is scheduled to enter phase III studies in the second quarter of 2015 for neovascular age-related macular degeneration. Fewer injections and better overall duration compared to treatments like Lucentis and Eylea could give DARPin an edge in the eye market. Another pipeline candidate with major commercial potential is bimatoprost sustained-release implant (treatment of elevated intraocular pressure in glaucoma) - the implant, if successfully developed, may have the potential to change the treatment paradigm for patients who currently rely on daily topical eye drops to treat their condition. Phase III studies are scheduled to commence by year end.
REASONS TO SELL

- **Competition on the Rise**: With Botox being a major contributor to sales, we remain concerned about reduced consumer spending and general economic conditions which could lead to a slowdown in Botox sales growth.

- **Discretionary Spending**: Several products in Allergan’s portfolio like Botox cosmetic, facial aesthetics and breast implants have limited reimbursement or are not covered by government or other health care plans. Moreover, these products are not life-saving in nature. Demand for these products is dependent on discretionary spending by customers. Sales of such products are, therefore, likely to be affected by weakness in the economy as consumers postpone their requirements for these products.

- **Patent Challenges & Pipeline Setbacks**: Quite a few products in Allergan’s portfolio are facing patent challenges. These include Combigan, Latisse, and Lumigan 0.01%. Unfavorable rulings and the earlier-than-expected entry of generics would affect segmental sales. Allergan is also investing in its pipeline. Delayed approvals or development setbacks would have a negative impact on the stock. The complete response letter (CRL) for Semprana was a disappointment.

RECENT NEWS

**Actavis to Acquire Allergan – Nov 17**

Putting an end to rumors, Actavis confirmed that it will be acquiring Allergan in a cash and stock transaction ($129.22 in cash and 0.3683 Actavis shares for each share of Allergan common stock) valued at about $66 billion or $219 per share. Brent Saunders, Actavis’ CEO and President, will lead the combined company.

The combined company is expected to generate free cash flow of more than $8 billion in 2016 and substantial growth thereafter, which should allow the rapid repayment of debt. The acquisition is slated to close in the second quarter of 2015.

Meanwhile, Valeant, which has been looking to acquire Allergan for quite some time, issued a statement saying that it cannot justify paying $219 or more per share for Allergan to its shareholders.

**Allergan Beats on Earnings, Revenues - Oct 27**

Allergan, Inc. reported third-quarter 2014 earnings of $1.78 per share, above the Zacks Consensus Estimate of $1.76.

While earnings climbed 44.7% from the year-ago quarter, revenues increased 16.6% to $1,817.1 million, above the Zacks Consensus Estimate of $1,770 million.

**The Quarter in Detail**

Specialty Pharmaceuticals sales increased 14.3% to $1,520 million, with eye-care pharmaceuticals, Botox and skin-care sales driving growth.

Eye-care pharmaceutical sales increased 14.2% to $818.8 million with Restasis (up 14.2%) contributing significantly to growth.
Alphagan franchise sales went up 15.9% to $130.2 million in the reported quarter. While Latisse sales decreased 8.1% to $22.4 million, Lumigan franchise sales went up 7.9% to $165.6 million.

Allergan increased its Lumigan franchise sales guidance. The company expects Lumigan franchise sales to be in the range of $650 million to $670 million in 2014. Alphagan franchise sales are expected in the range of $500–$510 million for 2014.

Restasis sales are expected to be within $1,070–$1,090 million in 2014. Allergan still expects Latisse sales to be approximately $100 million in 2014.

In the third quarter of 2014, Botox sales increased 15.3% year over year to $560.1 million. Allergan expects Botox sales of $2,200 million to $2,240 million in 2014.

Meanwhile, Allergan's Medical Devices segment posted sales of $270.7 million, up 36.3%. Breast aesthetics sales increased 6.1% to $97.5 million and facial aesthetics sales increased 51.3% to $161.4 million.

**Other Details**

Selling, general and administrative (SG&A) expenses increased 5.9% during the quarter to $617.6 million. Research and development (R&D) expenses amounted to $267.2 million, up 6.5%.

**EPS Guidance Up**

Allergan now expects 2014 earnings of $6.27–$6.30 per share as compared to the prior guidance of $6.20–$6.25 per share.

The company expects product net sales in the range of $7,080–$7,155 million in 2014. The guidance excludes revenues from transition services agreements related to the sale of the obesity intervention business.

For 2014, Allergan expects total Specialty Pharmaceuticals net sales of $5,990–$6,045 million.

The company expects Medical Devices net sales of $1,050–$1,070 million. Performance at the segment will be driven mainly by facial aesthetics. Facial aesthetics sales are expected in the range of $650 million to $660 million.

Breast aesthetics sales are expected in the range of $400 million to $410 million.

The company expects cost of sales to product net sales ratio of about 12% in 2014. The company expects its SG&A expenses to product net sales ratio of 37% and R&D expense to product net sales ratio of 16%.

Allergan expects fourth quarter earnings in the range of $1.80–$1.83 per share on product net sales of $1,845 million to $1,920 million.

**VALUATION**

Allergan posted better-than-expected third quarter earnings of $1.78 per share, surpassing the Zacks Consensus Estimate of $1.76. While earnings climbed 44.7% year over year, revenues increased 16.6% to $1,817.1 million, above the Zacks Consensus Estimate of $1,770 million.
Allergan upped its 2014 EPS guidance again to $6.27–$6.30. Allergan's restructuring plans, which involve cutting its workforce by 13% and reducing R&D and other expenditure, will aid the bottom line.

In Nov 2014, Allergan agreed to be acquired by Actavis in a cash and stock transaction valued at about $66 billion or $219 per share. With the acquisition slated to close in the second quarter of 2015, we maintain a Neutral recommendation on the stock.

Allergan's current trailing 12-month earnings multiple is 36.5, compared to the 21 average for the industry and 18.9 for the S&P 500. Over the last five years, Allergan's shares have traded in a range of 19.1 – 36.8x trailing 12-month earnings. Our target price of $223 is based on 26.1x our 2015 earnings per share estimate.

**Key Indicators**

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<th></th>
<th>P/E F1</th>
<th>P/E F2</th>
<th>Est. 5-Yr EPS Gr%</th>
<th>P/CF (TTM)</th>
<th>P/E 5-Yr High (TTM)</th>
<th>P/E 5-Yr Low (TTM)</th>
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<tr>
<td><strong>Allergan, Inc. (AGN)</strong></td>
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<td><strong>S&amp;P 500</strong></td>
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<td>26.5</td>
<td>25.1</td>
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<td><strong>H. Lundbeck A/S (HLUY)</strong></td>
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<td>25.4</td>
<td>24.6</td>
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TTM is trailing 12 months; F1 is 2014 and F2 is 2015, CF is operating cash flow

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<th>P/B 5-Yr High</th>
<th>P/B 5-Yr Low</th>
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<th>EV/EBITDA (TTM)</th>
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<td>8.9</td>
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Earnings Surprise and Estimate Revision History
DISCLOSURES & DEFINITIONS

The analysts contributing to this report do not hold any shares of AGN. The EPS and revenue forecasts are the Zacks Consensus estimates. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. Zacks certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report. Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed herein are subject to change. This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. Zacks uses the following rating system for the securities it covers. **Outperform** - Zacks expects that the subject company will outperform the broader U.S. equity market over the next six to twelve months. **Neutral** - Zacks expects that the company will perform in line with the broader U.S. equity market over the next six to twelve months. **Underperform** - Zacks expects the company will underperform the broader U.S. Equity market over the next six to twelve months. The current distribution of Zacks Ratings is as follows on the 1139 companies covered: Outperform - 16.1%, Neutral - 77.6%, Underperform – 6.0%. Data is as of midnight on the business day immediately prior to this publication.

Our recommendation for each stock is closely linked to the **Zacks Rank**, which results from a proprietary quantitative model using trends in earnings estimate revisions. This model is proven most effective for judging the timeliness of a stock over the next 1 to 3 months. The model assigns each stock a rank from 1 through 5. Zacks Rank 1 = Strong Buy, Zacks Rank 2 = Buy, Zacks Rank 3 = Hold, Zacks Rank 4 = Sell, Zacks Rank 5 = Strong Sell. We also provide a **Zacks Industry Rank** for each company which provides an idea of the near-term attractiveness of a company's industry group. We have 264 industry groups in total. Thus, the Zacks Industry Rank is a number between 1 and 264. In terms of investment attractiveness, the higher the rank the better. Historically, the top half of the industries has outperformed the general market. In determining **Risk Level**, we rely on a proprietary quantitative model that divides the entire universe of stocks into five groups, based on each stock's historical price volatility. The first group has stocks with the lowest values and are deemed **Low Risk**, while the 5th group has the highest values and are designated **High Risk**. Designations of **Below-Average Risk**, **Average Risk**, and **Above-Average Risk** correspond to the second, third, and fourth groups of stocks, respectively.