

**Allergan, plc (AGN - \$162.43 - NYSE)**

**Allergan Opts to Sell  
Over Splitting Up - Buy**

<u>Year</u>	<u>EPS</u> <sup>(a)</sup>	<u>P/E</u>	<u>PMV</u>		
2021P	\$18.80	8.6x	\$281	Dividend: \$2.96	Current Return: 1.8%
2020P	17.40	9.3	251	Shares O/S: 335.0 million	
2019E	16.75	9.7	235	52-Week Range: \$197.00 - \$114.27	
2018A	16.69	9.7	---		

(a) Adjusted EPS excluding certain restructuring, amortization, and other non-cash or one-time items

**COMPANY OVERVIEW**

Allergan plc, headquartered in Dublin, Ireland, is a global pharmaceutical company focused on the medical aesthetics, ophthalmology, neurology, and gastrointestinal health markets.

**Reason For Comment**

On June 25, 2019, AbbVie agreed to acquire Allergan for \$120.30 cash plus 0.866 shares of ABBV stock per share of AGN. Based on the prior day's close, the total consideration of \$188.24 per share (or \$63 billion) represented a 45% premium to AGN's stock price. The deal values Allergan at 11.5x our 2019 EBITDA of \$7.4 billion.

- *Go big and go home.* AbbVie's \$63 billion offer will combine two companies that have faced recent challenges to their stock prices and were both left at the alter following failed inversion transactions. The deal will bring Allergan back to the US in a move that diversifies the combined company away from the 2023 loss of exclusivity for Humira. ABBV expects the deal to be 10% accretive to EPS in the first year and over 20% accretive at peak with over \$2 billion of cost synergies in the third year. There will also be portfolio synergies in CNS, GI, and women's health. We see antitrust risk on some minor assets (brazikumab, Zenpep, and biosimilars) that the companies should be able to easily divest, though we caution that that FTC reviews in the pharma sector have often extended beyond initial expectations (ABBV expects to close the deal in early 2020).
- *Urgency becomes action.* [In our most recent Allergan report](#), we highlighted the benefits of splitting the company and criticized management for their claims of acting with a sense of urgency. AbbVie's price is well below our PMV and approximately one EBITDA turn below our midpoint valuation of \$205 per share in a split-up scenario, but we still must applaud management for finding a strategic alternative that provides immediate upside to investors along with a depreciated currency in ABBV shares that could add long-term value. The headline price of \$188.24 per share may not be the desired outcome for investors with a higher cost basis (shares traded above this level as recently as October 2018), so we wouldn't be surprised to see some resistance from activist shareholders. However, we think any activist push against the deal would be unlikely to succeed given that the less severe activist-led attempt to split the Chairman and CEO roles recently failed.
- *The new AbbVie.* AbbVie's challenge has been to find sources of revenue beyond the loss of Humira exclusivity in 2023. With the addition of Allergan, the new AbbVie will have approximately \$30 billion of non-Humira revenue in 2020 that is expected to grow at a high-single digit CAGR over the next decade. This will be supplemented with cash flow from Humira that can be used to repay debt (\$15-18B debt reduction by 2021). The company plans to maintain medical aesthetics as a distinct business that will retain the Allergan brand while benefiting from AbbVie's global resources. We see this integration as the primary risk to the new company, as AbbVie ascribed minimal value to Allergan's current pipeline portfolio.

**Investment Case**

We continue to recommend Allergan following the announced ABBV deal and expect shareholders to be rewarded in both the short and long term by the combination. When adjusting for deal terms and expected dividends, buying AGN today would create ABBV at approximately \$53 per share. This represents just over 5x consensus earnings for 2020 when adjusted for the estimated 10% earnings accretion. While we believe that a separation of medical aesthetics could have created more value (consistent with our 2019 PMV of \$235 per share), that decision would also have included greater risk in terms of timing, execution, and negative synergies.

**Table 1 Allergan Private Market Value Analysis: 2018-2023P**

FYE 12/31 (\$ in millions, except per share)	2018	2019E	2020P	2021P	2022P	2023P
US General Medicine	\$ 5,323	\$ 5,402	\$ 5,534	\$ 5,536	\$ 5,407	\$ 5,373
EBITDA	2,373	2,470	2,550	2,544	2,461	2,407
Valuation Multiple	11.0 x	11.0 x	11.0 x	11.0 x	11.0 x	11.0 x
Private Market Value	\$ 26,098	\$ 27,169	\$ 28,054	\$ 27,986	\$ 27,074	\$ 26,477
US Specialized Medicine	\$ 6,920	\$ 6,335	\$ 6,240	\$ 6,593	\$ 6,935	\$ 7,436
EBITDA	3,850	3,224	3,085	3,300	3,539	3,891
Valuation Multiple	14.0 x	14.5 x	14.5 x	14.5 x	14.5 x	14.5 x
Private Market Value	\$ 53,903	\$ 46,747	\$ 44,728	\$ 47,845	\$ 51,312	\$ 56,424
International	\$ 3,505	\$ 3,548	\$ 3,791	\$ 4,058	\$ 4,322	\$ 4,581
EBITDA	1,540	1,661	1,841	2,016	2,187	2,348
Valuation Multiple	13.5 x	13.5 x	13.5 x	13.5 x	13.5 x	13.5 x
Private Market Value	\$ 20,796	\$ 22,426	\$ 24,852	\$ 27,221	\$ 29,522	\$ 31,700
Total Segment PMV	\$100,797	\$ 96,343	\$ 97,634	\$103,053	\$107,907	\$114,602
Less: Net Debt	(21,890)	(19,395)	(15,398)	(11,002)	(6,238)	(993)
Less: Options Payments (a)	(1,174)	(1,155)	(1,293)	(1,545)	(1,789)	(2,090)
Equity Private Market Value	\$ 77,732	\$ 75,793	\$ 80,943	\$ 90,506	\$ 99,880	\$111,518
Shares Outstanding	328	323	322	322	322	322
<b>PMV Per Share</b>	<b>\$ 237</b>	<b>\$ 235</b>	<b>\$ 251</b>	<b>\$ 281</b>	<b>\$ 310</b>	<b>\$ 346</b>
Current Discount to PMV	32%	31%	35%	42%	48%	53%

(a) After-tax payments to buy out options and restricted stock at PMV

Source: Company filings and g.research estimates

**Other companies mentioned:**

AbbVie (ABBV – NYSE)

**Allergan Price Performance**

Source: Public data. As of June 26, 2016 AGN had a BUY recommendation

I, **Kevin Kedra** the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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**Ratings**

Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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