



ANALYST QUICK NOTES

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Allergan plc (NYSE: AGN: BUY)

Target Price: \$340

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- We reiterate our BUY-recommendation on AGN amid recent sell-off of pharma stocks.
- We think it is misguided that some investors are using AGN as short-sell proxy for Valeant. This trading pattern ignores AGN's commitment to drug development, in clear contrast to the Valeant model.
- Based on recent conversation with AGN executive chairman Paul Bisaro, we see Allergan with stronger pricing power and higher margins as it focuses on specialty pharma and medical aesthetics, after divesting its global generics business.
- Bisaro also said they would remove "self-regulators" that old Allergan had that capped earnings growth at 15%, thus providing greater capacity for growth going forward in new Allergan.
- AGN generates substantial sales from medical aesthetics, which addresses a largely self-payer market, rather than third-party reimbursement market. Patients pay out of pocket for aesthetics treatment. This insulates these products from the controversy over drug pricing. Self-payer market would not be subject to government price controls, as unlikely as those would be. We don't see price controls passed by GOP-controlled Congress.
- Here is our take on growth opportunities in Medical Aesthetics:
 - Botox platform (16% of revenue) can be expanded in adjacencies and overseas markets and bolt-on acquisitions.
 - Kybella (from recent Kythera acquisition) could add \$500-\$600 million to Medical Aesthetics platform. Kybella was approved by FDA for indication of eliminating double-chin by destroying fat cells. It will be developed for other aesthetics indications, such as "love-handles".
 - Kybella will be nice complement to the Medical Aesthetics portfolio that includes Botox.

- AGN's commitment to R&D - Costs for research, clinical trials, and FDA and EU approval processes are investments that justify drug pricing.
 - Company holds Nov. 4 investors meeting at Irvine, California HQ of old Allergan.
 - Demonstrates new Allergan's commitment to drug development and R&D.
 - Management to detail timelines for commercializing 70 mid-to-late stage R&D projects in key therapeutic areas.

 - What Allergan could do with \$35 billion in proceeds from sale of generics business to Teva.
 - Pay down debt
 - Increase dividend
 - Strategic M&A, in-licensing of early stage drug assets, bolt-on acquisitions that complement existing platforms.
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