Allergan plc  
(AGN-NYSE)  
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Specialty Pharmaceuticals

R+D Day Recap: Strong Pipeline Poised to Drive Future Growth/Price to PFE

Recommendation: Allergan (AGN) kicked off its 3Q15 R+D Day with a poignant juxtaposition of the pharmaceutical industry’s “Innovation Ecosystem” between 1998, the heyday of big pharma, and 2013, by tracking the sources of new molecular entity (NME) origination. In 1998, 62% of all NMEs originated from global pharma companies, while only 14% came from biotech companies and start-ups (the remainder came from academia/regional pharma). However, in 2013, the ratios had almost reversed (22% global pharma and 50% biotech/startups). This represented a paradigm shift and the inability of big pharma to continually generate a significant proportion of NMEs, despite spending more than $750 billion in research and development during this time. As a result of these dynamics and Allergan’s demonstrated pipeline depth, core strengths, and ability to fund future deals, we are maintaining our current Outperform rating with a $337 price target.

♦ Allergan derives its corporate strategy from this new ecosystem, the Open Science Model. Regardless of whether developed internally or externally, Allergan targets innovative, high-growth products that service unmet medical needs. As a result, the company has not steered away from partnerships, acquisitions ($140 billion in deal activity since 2013, not including today’s Norwood acquisition), nor in-house development. Its multi-front pursuit of innovative products has yielded exceptional results, as it ranks second, behind only Novartis, for the number of biologic license applications (BLA)/NMEs approved from 2009-2015 with 13. Additionally, Allergan further distances itself from the competition with its efficiency, with the best ratio of NME/BLA approvals per billion dollars spent (0.9) from 2009-2014.

Valuation: We use an® 18x 2017E EPS target multiple to obtain our target price of $337. This multiple largely reflects that a transaction, should it materialize (please see our 10/30/15 comment for more insight here), would likely yield significant upside scenarios, and is at the high end of the pharma space given our view of Allergan’s superior organic profile.

<table>
<thead>
<tr>
<th>Adjusted EPS</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Full Year</th>
<th>Total Revenues (mil.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014A</td>
<td>$3.49</td>
<td>$3.42</td>
<td>$3.19</td>
<td>$3.91</td>
<td>$13.98</td>
<td>$12,847</td>
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<tr>
<td>Old 2015E</td>
<td>4.30A</td>
<td>4.30A</td>
<td>3.48A</td>
<td>3.27</td>
<td>15.35</td>
<td>14,908</td>
</tr>
<tr>
<td>New 2015E</td>
<td>4.30A</td>
<td>4.30A</td>
<td>3.48A</td>
<td>3.27</td>
<td>15.35</td>
<td>14,908</td>
</tr>
<tr>
<td>Old 2017E</td>
<td>UR</td>
<td>UR</td>
<td>UR</td>
<td>18.81</td>
<td>19,948</td>
<td></td>
</tr>
<tr>
<td>New 2017E</td>
<td>UR</td>
<td>UR</td>
<td>UR</td>
<td>18.81</td>
<td>19,948</td>
<td></td>
</tr>
</tbody>
</table>

Raymond James has updated its suitability rating system, effective 9/29/15. Please see the disclosures for the definition of the suitability rating. Rows may not add due to rounding. Adjusted EPS figures exclude intangible amortization and other non-cash expenses and income items that do not impact cash flow or nonrecurring items not reflective of operating performance. UR: Under Review.
Allergan has ambitiously set a goal of 20 significant launches by 2020. A listing of Allergan’s segments and corresponding pipeline products can be found below.

**GI Segment** – Partnering with Ironwood, Furiex, Almirall, Proctor&Gamble, Aptalis, Rhythm

- **Viberzi**
  - Received FDA approval May 2015 and a late 2015 launch is expected; 2017 EU launch.
  - Targets opioid receptors in GI tract removing visceral pain and slowing GI motility associated with IBSD diarrhea.
  - Pharmacologically distinct from OTCs and Xifaxan as it demonstrates a high response rate & low relapse rate.
  - $15 billion market, with the potential to achieve up to $1 billion in sales via full PCP and GI coverage.

- **Relamorelin**
  - Targeting Diabetic Gastroparesis. No new treatments in 30 years; current treatment options lack long-term efficacy.
  - Novel method of action, a prokinetic (ghrelin inhibitor) for a vastly underserved market with ~$6 billion in market potential.
  - Reglan, an approved prokinetic was found to have significant limitations while the only other one (Propulsid) was withdrawn.
  - Despite their ineffectiveness, both products generated > $1 billion in revenue.
  - Relamorelin is a potential “game-changer” as it completes its 2b study, as it has shown itself to be both safe and efficacious.

- **Linzess**
  - Lizness is “firing on all cylinders” as Phase 3 results for Complete Spontaneous Bowel Movements (CSBM) demonstrated statistically significant improvement. Lizness is currently indicated for opioid induced constipation.
  - Currently developing additional low dose/sprinkle formulations and a colonic delivery form to convert OTC market share.
  - Project $1 billion + sales from 2015-2024 as these new delivery programs/formulations gain traction in the market.

**CNS Segment**– Partnering with Gideon Richter, Naurex, Merck, Adamas, Aptinyx

- **Repastinel**
  - Potentially ground-breaking project (given Fast Track designation by FDA) in the treatment of acute, severe depressive episodes- a market that has not witnessed major innovation since Prozac in 1989. This product is phase 3 ready.
  - Current treatment options are geared toward maintenance and focus on serotonin/noepinephrine. These take four to six weeks to act; and thus are ineffective against an acute episode. Repastinel is active within two hours.
  - Because it blocks a key Na/Ca ion channel, ketamine has been evaluated as a potential fast acting treatment option. However, its high abuse potential/ debilitating side effects have hindered its commercial development.
  - Repastinel modulates this ion channel rather than blocking it, and does not induce any serious side effects/adverse events.
  - Blockbuster potential in a massive market, 24 million people have MDD, Repastinel would be effective in 30-40% of this group.

- **Vraylar**
  - Most antipsychotics are D2 receptor agonists; Vraylar has unique D3 affinity, making it active in a wide variety of indications.
  - FDA approved in schizophrenia and bipolar mania in Sept 2015. Phase 3 ongoing in MDD Adjunct, Phase 2 completed in bipolar depression. Phase 2 completed in Negative Symptoms (no product approved in the treatment of negative symptoms).
  - Negative symptoms are a notoriously difficult to treat aspect of schizophrenia, such as the lack of ability to enjoy everyday life. Vraylar has demonstrated convincing Phase 2 efficacy in the treatment of these symptoms, a $3 billion market.
  - Also effective in bipolar mania, adjunct MDD, bipolar depression; total sales potential from Vralar is $15-$20 billion.

- **Semprana**
  - In Phase 3, Semprana is an inhaled second-line treatment for acute migraines. It is a key component of AGN’s strategy to capture the full spectrum of migraines.
  - Will be used as alternative in triptans (which often display limited efficacy). Chemistry Manufacturing and Control (CMC) issues are thought to be resolved; AGN plans to launch late 2016.
Of a $10 billion U.S. migraine prophylaxis market, 6 million patients are still seeking care, meaning that there is great financial potential for Semprana and its migraine-treating counterpart, Ubroepant.

- **Ubroepant**
  - First-line oral treatment (preferred over injectable) of acute migraines. Phase 3 program will start in 2016.
  - Phase 2 data shows comparable efficacy to triptans with improved tolerability as design modifications were made to prevent the formulation of potentially reactive metabolites.

- **AGN-241689**
  - Phase 2 studies to begin next year for the treatment of episodic and chronic migraine. Employs similar design modifications as Ubroepant to prevent reactive metabolites from forming, and will operate in the high-potential migraine prophylaxis market.

### Women’s Health & Urology Segment - Partnering with Gideon Richter, Taris, Medicines 360, Serenity Pharmaceuticals

- **Emsys**
  - First-in-class selective progesterone modulator (SPRM), Phase 3 studies ongoing for treatment of uterine fibroids.
  - Already approved in EU (May 2015) and Canada. Expected NDA submission in 2017, approval 2018.
  - Market is seeking a nonsurgical alternative to manage this underserved condition. Of the 500k hysterectomies performed, it is believed half are caused by uterine fibroids.
  - Large market, 11 million women diagnosed with uterine fibroids. Canadian uptake rate points to a $1 billion opportunity in U.S..

- **Ser-120**
  - A nasal spray being tested in 4 placebo-controlled studies for the treatment of nocturnia - the need to urinate at night.
  - Unique PK profile yields short overnight action and no daytime side effects. U.S. NDA submission planned in 2016, European development will begin in 2016.
  - Nocturia affects 25-34% of the population aged ≥ 50 years old, a rapidly growing demographic group.

### Anti-Infectives Segment - Partnering with AstraZeneca, Durata, Novexel, Cerexa

- **Aycaz**
  - Approved February 2015 in complicated intra-abdominal infections (cIAI) and complicated urinary tract infections (cUTI).
  - Supplemental NDAs are being filed as the drug was approved off of Phase 2 data (which speaks to its effectiveness) so the labeling was restrictive, (sNDAs for cIAI will be filed later this year and in early 2016 for cUTI).

### Aesthetics & Dermatology Segment - Partnering with Kythera and earFOLD

- **Kybella**
  - The first injectable treatment for submental fullness (double-chin); causes lysis of fat cells on chin and tightens skin.
  - 80% of patients responded to treatment. Especially important as Kybella has potential to be marketed in additional cosmetic indications (treatment of arm fat, love handles, etc.) as well as therapeutic indications (such as sleep apnea or lipoma).
  - This “pipeline in a product” potential is reminiscent of Botox. Already approved/launched in U.S., will be launched in Canada later this year. Launches in Canada/ Australia as well as developing market submission (China, Brazil) are planned for 2016. EU launch planned for 2017.
  - Explosive growth of body sculpting/fat market, expansion rate ~60% every three years. Estimates peg the body/sculpting fat market at $0.6 billion in 2014, growing to $1 billion in 2017, and $1.5 billion in 2020.
  - As a unique, innovative product, Kybella will likely seize much of this expanding market.

- **earFOLD**
  - A simple clip designed to correct prominent ears, acquired from Northwood in October 2015.
  - Minimally medically invasive especially when compared to the lengthy, expensive surgical procedure of otoplasty.
  - Launch-ready in Europe (available in UK), affects 1-2% of global population.
  - Because it is so convenient relative to current corrective standards, a large market capture is expected.

- **Oxymetazoline**
  - An adrenergic agonist cream that enables the constriction of abnormally-dilated blood vessels, which contribute to the redness associated with rosacea.
  - Phase 3 trials have been completed with an NDA submission target date of 1Q16. Lacks the “rebound” or return of rosacea associated with current treatments.
  - Historically underserved market yields high potential as rosacea affects greater than 16 million people in the U.S.

- **Botox**
  - Long time aesthetic segment revenue powerhouse pursuing numerous additional indications with the ability to provide $1 billion + in additional revenues.
  - Emblematic of their “Open Science” strategy, which involves the maximization of current assets.
Eyecare Segment

Partnerships with Oculeve, Mimetogen, Aquesys, Molecular Partners

- Oculeve
  - Presented as an “electroceutical”, Oculeve works to stimulate the lacrimal gland to produce actual tears (with their individual-specific hormonal mucin, an ability which other dry-eye treatments lack.

- Restasis
  - Also used in the treatment of dry-eye, the NDA for the multi-dose form of key product Restasis was filed on 11/3/15 and received a PDUFA date of March 2016.
  - Massively improved patient convenience, one-month supply contained in a single bottle vs. 60 unit dose vials.
  - Dry eye affects > 55 million people in the U.S., a rate that is increasing with the aging of baby-boomers and lengthy screen use.
  - Despite this prevalence, there is low Rx penetration in this market. Of the 55 million patients, only 16 million are seeking treatment. AGN hopes to change this via large DTC promotional/educational efforts. As such, both of these products are poised to contribute to AGN’s Best in Class Dry Eye product line.

Peak Sales of New Products up to $15B

<table>
<thead>
<tr>
<th>Product</th>
<th>TA</th>
<th>Indication</th>
<th>Expected Launch</th>
<th>Preliminary Peak Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABCFHR</td>
<td>Eye Care</td>
<td>Age-Related Macular Degeneration</td>
<td>2020</td>
<td>$1,000–2,000+</td>
</tr>
<tr>
<td>RAPASTINEL</td>
<td>Psychiatry</td>
<td>Depression</td>
<td>2020</td>
<td>$1,500–2,000+</td>
</tr>
<tr>
<td>BOTOX PIPELINE</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>$1,000–2,000+</td>
</tr>
<tr>
<td>ORNL LGP</td>
<td>Neurology</td>
<td>Migraine</td>
<td>2019</td>
<td>$1,000–2,000+</td>
</tr>
<tr>
<td>VBERTO</td>
<td>GI</td>
<td>IBD-D</td>
<td>2015</td>
<td>$750–1,000</td>
</tr>
<tr>
<td>ESMA</td>
<td>WH</td>
<td>Ulcerative Fistula</td>
<td>2017</td>
<td>$500–1,000</td>
</tr>
<tr>
<td>RELAMORELIN</td>
<td>GI</td>
<td>Gastropanes</td>
<td>2018</td>
<td>$500–1,000</td>
</tr>
<tr>
<td>VRAYLAR</td>
<td>CNS</td>
<td>Bipolar Schizophrenia</td>
<td>2019</td>
<td>$500–1,000</td>
</tr>
<tr>
<td>KYSELLA</td>
<td>Aesthetics</td>
<td>Chol Fuss</td>
<td>2015</td>
<td>$500–1,000</td>
</tr>
<tr>
<td>BIMATOPROST SR</td>
<td>Eye Care</td>
<td>Glaucoma</td>
<td>2018</td>
<td>$500–750</td>
</tr>
<tr>
<td>XEN45</td>
<td>Eye Care</td>
<td>Glaucoma</td>
<td>2016</td>
<td>$500–750</td>
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<tr>
<td>TAVERVIME</td>
<td>Eye Care</td>
<td>Dry Eye</td>
<td>2019</td>
<td>$500–750</td>
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<tr>
<td>TARECYCLINE</td>
<td>DERM</td>
<td>Severe Acne</td>
<td>2017</td>
<td>$200–300</td>
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</table>

Source: AGN R+D Day Presentation, 11/4/15

Through adherence to its “Open Science” strategy as well as impressive internal R+D work, Allergan has crafted a formidable pipeline that is poised to drive growth, with peak sales of new products topping out at an impressive $15 billion. This expansion will, in turn, fund additional tuck-ins and R+D work, enhance its overall financial profile, and power the company to achieve its stated goal of 20 significant launches by 2020. Given the strength of this pipeline combined with a strong 3Q performance and the 1Q16 deployment of deal capital for additional acquisitions, we believe Allergan’s price tag for the Pfizer deal could be significant. Assuming a takeout premium of 15.0x forward EBITDA, AGN shares would appear to have upside to at least the mid $330 level though given asset quality, the fact that AGN itself was only recently acquired at more than 20.0x forward EBITDA, and the potential for AGN management to create significant incremental value as a stand-alone via deployment of the $40.5 billion in gross proceeds from sales of generics business to Teva, deal multiple would likely conservatively approach 17.0x-17.5x forward EBITDA metrics in our view, implying per share value of $375-$385. Please see our comment of 10/30/15 for our take on the AGN/Pfizer situation.
Company Citations

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<tr>
<th>Company Name</th>
<th>Ticker</th>
<th>Exchange</th>
<th>Currency</th>
<th>Closing Price</th>
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<th>RJ Entity</th>
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<td>$</td>
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<td>RJ &amp; Associates</td>
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<td>Teva Pharmaceutical Industries, Ltd.</td>
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<td>60.92</td>
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<td>RJ &amp; Associates</td>
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Notes: Prices are as of the most recent close on the indicated exchange and may not be in US$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be registered for sale in all U.S. states. NC=not covered.
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Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.
Market Perform (MP3)  Expected to perform generally in line with the S&P 500 over the next 12 months.
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Market Perform (MP3)  The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.
Underperform (MU4)  The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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Market Perform (MP3)  The stock is expected to perform in line with the underlying country index.
Underperform (MU4)  Expected to underperform the underlying country index.
Suspended (S)  The rating and price target have been suspended temporarily.  This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company.  The previous rating and price target are no longer in effect for this security and should not be relied upon.

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Market Perform (3)  Expected to perform generally in line with the Stoxx 600 over the next 12 months.
Underperform (4)  Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.
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<tr>
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<th>Coverage Universe Rating Distribution*</th>
<th>Investment Banking Distribution</th>
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<tr>
<td></td>
<td>RJA</td>
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<tr>
<td>Strong Buy and Outperform (Buy)</td>
<td>57%</td>
<td>69%</td>
</tr>
<tr>
<td>Market Perform (Hold)</td>
<td>38%</td>
<td>30%</td>
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<tr>
<td>Underperform (Sell)</td>
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<td>1%</td>
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* Columns may not add to 100% due to rounding.

Suitability Ratings (SR)

Medium Risk/Income (M/INC)  Lower to average risk equities of companies with sound financials, consistent earnings, and dividend yields above that of the S&P 500.  Many securities in this category are structured with a focus on providing a consistent dividend or return of capital.
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Raymond James expects to receive or intends to seek compensation for investment banking services from the subject companies in the next three months.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Disclosure</th>
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<tbody>
<tr>
<td>Allergan plc</td>
<td>Raymond James &amp; Associates has received compensation for investment banking services provided to Allergan plc within the past 12 months. Raymond James &amp; Associates makes a market in shares of AGN. Raymond James &amp; Associates received non-securities-related compensation from AGN within the past 12 months.</td>
</tr>
<tr>
<td>Pfizer Inc.</td>
<td>Raymond James &amp; Associates makes a market in shares of PFE.</td>
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Target Prices: The information below indicates our target price and rating changes for AGN stock over the past three years.

![Stock Chart](image-url)

Valuation Methodology: Our valuation methodology for Allergan utilizes a target multiple approach of forward adjusted EPS metrics excluding non-cash items not deemed relevant to true earnings power. Allergan shares historically demonstrated the strongest correlation with P/E based valuation parameters and our target multiple assumption is based upon a combination of historic and relative P/E levels vs. peer comparisons and broader market levels adjusted for short and long-term growth potential and risk profile.

Risk Factors

General Risk Factors: Following are some general risk factors that pertain to the projected target prices included on Raymond James research:

1. Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected...
Specific Investment Risks Related to the Industry or Issuer

Pharmaceutical Industry Risk Factors
Risk factors specifically impacting the pharmaceutical industry include the following: 1) a complex and rapidly changing marketplace with increased exposure to currency fluctuations, government pricing policies and controls, and varying degrees of acceptance for branded and generic pharmaceuticals; 2) extensive regulation by various governmental authorities (including the U.S. Food & Drug Administration within the United States) and other regulatory bodies, which have substantial influence and control over the approval of new drugs, manufacturing facility regulation, and operational procedures; 3) utilization of complex legal, regulatory, and legislative strategies by both branded and generic competitors to prevent, delay, eliminate, or otherwise impede the introduction of products; 4) increased supply chain concentration with the vast majority of industry sales derived via relationships with several large wholesalers; and 5) health care reform initiatives that could affect the demand for, availability of, and reimbursement of pharmaceutical products in the key U.S. market.

Company Specific Risk Factors for Allergan
Allergan has acquired multiple large, diverse operations, including Allergan, Forest, Furiex, and Warner Chilcott, the combined effect of which has significantly increased the scope and complexity of the company's operations. Failure to fully and effectively integrate these businesses could result in diminution of expected benefits and synergies derived from these deals, leading to adverse impacts on overall combined financial results. As a result of this acquisition activity, management has accumulated significant indebtedness, currently in excess of $44.0 billion, or 4.1x pro forma adjusted EBITDA. Integration issues or underperformance of acquired product franchises could lead to slippage in targeted debt repayment expectations, which could also negatively impact profitability levels and share valuation. The company faces potential initial generic entry on key assets including Bystolic, Linzess, and Viibryd over the next few years, while Asacol HD could face generic competition as soon as late 2015. While Allergan is incorporated in Ireland, the IRS may assert that it should be treated as a U.S. corporation for U.S. federal tax purposes, which would significantly negatively impact the company's reported tax rate. A significant portion, ~20.0%, of the Allergan purchase price was allocated to R&D projects, primarily the DARPin VEGF inhibitor abicipar. Failure to commercialize key development projects would likely have a material adverse impact on Allergan's financial results and valuation.

Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at rjcapitalmarkets.com/Dislosures/index. Copies of research or Raymond James’ summary policies relating to research analyst independence can be obtained by contacting any Raymond James & Associates or Raymond James Financial Services office (please see raymondjames.com for office locations) or by calling 727-567-1000, toll free 800-237-5643 or sending a written request to the Equity Research Library, Raymond James & Associates, Inc., Tower 3, 6th Floor, 880 Carillon Parkway, St. Petersburg, FL 33716.

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