

## Equity Research

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## Industry Report

## Specialty Pharmaceuticals and Biotechnology

### New Drug Pricing Lawsuit Hammer's Generic Drug Stocks

#### Anti-Trust Lawsuit Filed by 44 States Accuses 20 Co.'s of Inflating Prices on More than 100 Products

Stocks of generic Co.'s we follow (including Teva [TEVA, Neutral], Mylan [MYL, Buy, \$35 PT], and Amneal [AMRX, Buy, \$18 PT]) were all down between 10% - 15% today, following the filing of an anti-trust lawsuit by 44 states led by the State of Connecticut's AG, William Tong. This lawsuit (which was filed in the US District Court of Connecticut) accuses 20 generic drug manufacturers of artificially inflating prices and reducing competition on more than 100 different products, with 15 individuals named in the case. This is the second case that has been filed against generic drug Co.'s and is much wider in scope than the original case, which involved just 15 generic products.

- ▶ While it is hard to assess what the potential damages could be to the generic drug manufacturers that are a target of these investigations, we can only point to past DOJ settlements and fines, which were paid to the US Government. We cite two cases, both of which involved MYL – back in the late-1990s, the Co. was fined a total of ~\$147M by the US Government in a case related to price increases on lorazepam and clorazepate, and more recently in 2016, MYL settled with the US Department of Justice and other agencies on its EpiPen for ~\$465M.
- ▶ Certainly, the scope of this second lawsuit spans a wide variety of generic products and could lead to much higher fines than what we have seen in the past. We would highlight that Teva lost ~\$2.5B of its equity value today, with Mylan losing ~\$1.1B. Based on our reading of both lawsuits filed by the State Attorney Generals, there is a significant amount of information that has been collected from various communications (phone calls, text messages, etc.). However, this case will still have to be litigated, which could take quite a bit of time.
- ▶ In sum, we think today's sell-off in the generic sector may be overdone, as we are still a ways away from figuring out what the potential future financial damages may be. In our view, while generic drug pricing may have been inflated back in 2013 - 2015, many of the prices for generic products have fallen significantly since then. Price erosion in the generic drug industry has weighed heavily on the generic industry for the past several years, with negative effects across the industry. Now, with the lawsuits from the various state attorney generals it appears the generic industry will be further penalized for profits it shouldn't have made.

In the tables below, we highlight the current financial metrics for eight of the major specialty pharmaceutical Co.'s including Allergan (AGN, Not Rated), Teva, Mylan, Perrigo (PRGO, Neutral), Bausch Health (BHC, Neutral), Mallinckrodt (MNK, Not Rated), Endo (ENDP, Not Rated), and Amneal.

Ticker	Co. Name	Common Shares Outstanding (M)	Share Price	Cash & Equivalents (\$M)	Book Debt (Notes/Loans) Short-Term (\$M)	Pension Liabilities	Long-Term (\$M)	Total Debt (\$M)	Preferred Equity (\$M)	Non-Controlling Interest (\$M)	Market Cap (\$M)	Net Debt (\$M)	Enterprise Value (EV) (\$M)	EBITDA FY 2019E (\$M)	EV / EBITDA	Sr. Unsecured Debt Moody's	S&P	Total Debt / Mkt Cap	Net Debt / EBITDA
TEVA	Teva Pharmaceutical Industries Ltd.	1,092	\$12.23	1,973	2,790	0	25,834	28,624	0	1,089	13,350	26,651	41,090	4,618	8.9 x	Ba2	BB	2.1	5.8 x
AGN	Allergan plc	328	\$135.01	1,784	3,972	140	19,554	23,526	0	18	44,257	21,742	66,016	7,582	8.7 x	N/A	BBB	0.5	2.9 x
MYL	Mylan N.V.	515	\$20.08	230	1,176	352	13,291	14,468	0	0	10,350	14,238	24,588	3,551	6.9 x	Baa3	BBB-	1.4	4.0 x
PRGO	Perrigo Company plc	136	\$49.77	838	468	17	2,750	3,218	0	0	6,768	2,380	9,148	928	9.9 x	Baa3	BBB-	0.5	2.6 x
BHC	Bausch Health Companies	352	\$24.57	784	257	115	23,924	24,181	0	86	8,646	23,397	32,129	3,453	9.3 x	B2	B	2.8	6.8 x
MNK	Mallinckrodt plc	84	\$15.13	226	20	26	5,818	5,837	0	0	1,268	5,612	6,880	1,241	5.5 x	WR	B+	4.6	4.5 x
ENDP	Endo International plc	226	\$6.51	1,314	36	0	8,075	8,111	0	0	1,472	6,797	8,269	1,271	6.5 x	N/A	N/A	5.5	5.3 x
IPXL	Amneal Pharmaceuticals, Inc.	299	\$8.91	67	21	0	2,625	2,647	0	328	2,663	2,580	5,570	602	9.3 x	N/A	N/A	1.0	4.3 x

Group Average (excludes BHC)

Share price as of 5/13/19

Impax Labs (IPXL) and Amneal Pharmaceuticals LLC (private) merged to create Amneal Pharmaceuticals (AMRX), effective May, 2018

Bausch Health (BHC) is the former Valeant (VRX), effective July, 2018

WR = Withdrawn

Source: Co. Filings, FactSet, BTIG

Consensus  
CY19

### CY19 Consensus EBITDA

#### Highest to Lowest

\$M

1	Allergan plc	\$7,582
2	Teva Pharmaceutical Industries	\$4,618
3	Mylan N.V.	\$3,551
4	Bausch Health Companies	\$3,453
5	Endo International plc	\$1,271
6	Mallinckrodt plc	\$1,241
7	Perrigo Company plc	\$928
8	Amneal Pharmaceuticals, Inc.	\$602

### Debt / EBITDA

#### Highest to Lowest

1	Bausch Health Companies	6.8 x
2	Teva Pharmaceutical Industries	5.8 x
3	Endo International plc	5.3 x
4	Mallinckrodt plc	4.5 x
5	Amneal Pharmaceuticals, Inc.	4.3 x
6	Mylan N.V.	4.0 x
7	Allergan plc	2.9 x
8	Perrigo Company plc	2.6 x

### EV / EBITDA

#### Highest to Lowest

1	Perrigo Company plc	9.9 x
2	Bausch Health Companies	9.3 x
3	Amneal Pharmaceuticals, Inc.	9.3 x
4	Teva Pharmaceutical Industries	8.9 x
5	Allergan plc	8.7 x
6	Mylan N.V.	6.9 x
7	Endo International plc	6.5 x
8	Mallinckrodt plc	5.5 x

Source: Co. Filings, FactSet, BTIG

## BTIG Covered Companies Mentioned in this Report

AMNEAL PHARMACEUTICALS, INC. (AMRX, Buy, \$18.00 PT; Current Price: \$8.91; Analyst: Timothy Chiang)

BAUSCH HEALTH COMPANIES (BHC, Neutral, \$N/A PT; Current Price: \$24.57; Analyst: Timothy Chiang)

MYLAN N.V. (MYL, Buy, \$35.00 PT; Current Price: \$20.08; Analyst: Timothy Chiang)

PERRIGO COMPANY PLC (PRGO, Neutral, \$N/A PT; Current Price: \$49.77; Analyst: Timothy Chiang)

TEVA PHARMACEUTICAL INDUSTRIES (TEVA, Neutral, \$N/A PT; Current Price: \$12.23; Analyst: Timothy Chiang)

## Appendix: Analyst Certification and Other Important Disclosures

### Analyst Certification

I, Timothy Chiang, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Allison Kelley, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

### Regulatory Disclosures

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**SELL** – A security which is expected to produce a negative total return of 15% or greater over the next 12 months following the recommendation. The SELL rating may be maintained as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

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### Company Valuation and Risk Disclosures

#### **Amneal Pharmaceuticals, Inc. (AMRX, Buy, \$18.00 PT)**

**Valuation:** Our \$18 price target is based on a discounted cash flow valuation. We apply a ~10x terminal multiple on our 2023 free cash flow estimate, discounted back at 9.5%.

**Risks:** Risks include potential delays for generic ANDA's, as well as the potential for additional entrants into key products on the generic and specialty branded side. Pricing for certain generic products have fallen over the past year. However, we think new product approvals could provide an offset on the generic side, which could drive a recovery.

# Amneal Pharmaceuticals, Inc. (AMRX)



*Note: Closing Price and Target Price have been adjusted for corporate actions.*

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
06-Oct-15	37.81	48	Timothy Chiang	Buy
21-Jun-16	28.31	43	Timothy Chiang	Buy
09-Aug-16	23.43	30	Timothy Chiang	Buy
09-Nov-16	14	19	Timothy Chiang	Buy
02-Mar-17	9.35	13	Timothy Chiang	Buy
27-Mar-17	12.70	16	Timothy Chiang	Buy
10-May-17	16.55	20	Timothy Chiang	Buy
22-Sep-17	23	27	Timothy Chiang	Buy
08-May-18	14.71	20	Timothy Chiang	Buy
10-Aug-18	20.30	24	Timothy Chiang	Buy
01-Mar-19	13.50	18	Timothy Chiang	Buy

The merger of Impax Laboratories, Inc. (IPXL) and Amneal Pharmaceuticals LLC (private) to create Amneal Pharmaceuticals, Inc. (AMRX) became effective on May 7, 2018.

## Bausch Health Companies (BHC, Neutral)

**Valuation:** Our sum-of-the-parts analysis suggests the shares are worth ~\$26 per share, assuming that BHC is valued at ~4x our CY19 revenue estimate of ~\$8.35B. BTIG does not provide price targets on Neutral-rated stocks.

**Risks:** While BHC trades at a discount, we believe there still remains quite a bit of uncertainty with how payers will react. In addition, we believe heightened oversight could impact future cash flows. Upside risks include BHC being acquired. However, we see a low likelihood of this occurring.

### Bausch Health Companies (BHC)



*Note: Closing Price and Target Price have been adjusted for corporate actions.*

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
20-Jul-15	239.88	275	Timothy Chiang	Buy
23-Jul-15	253.84	290	Timothy Chiang	Buy
06-Oct-15	166	250	Timothy Chiang	Buy
21-Oct-15	118.61	210	Timothy Chiang	Buy
26-Oct-15	110.04	175	Timothy Chiang	Buy
29-Oct-15	111.50	NA	Timothy Chiang	Neutral

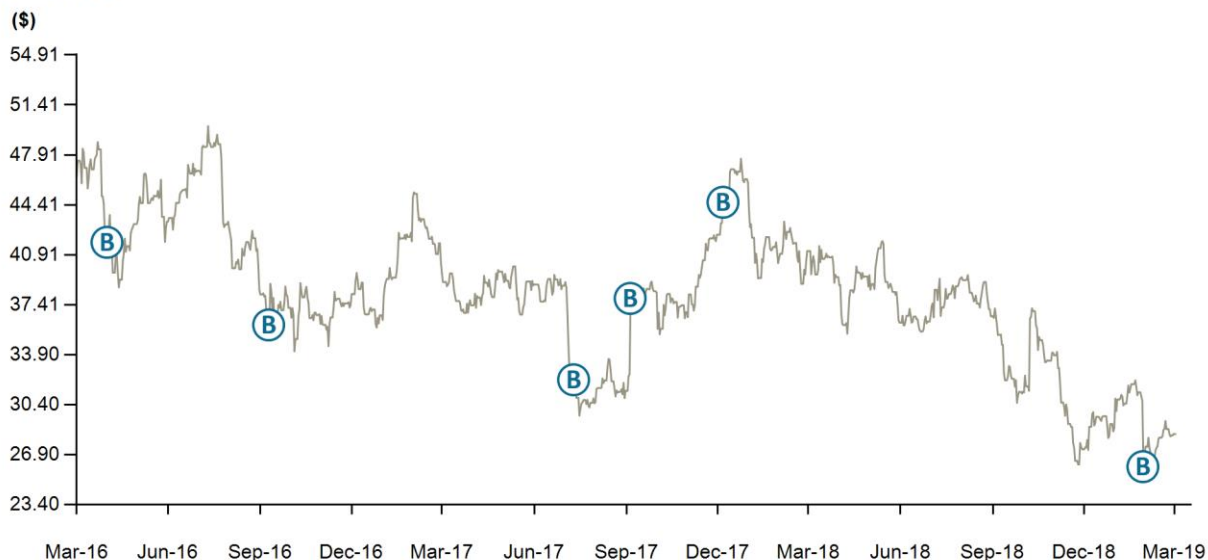
Bausch Health Companies (BHC) is the former Valeant Pharmaceuticals International (VRX), effective July, 2018

### Mylan N.V. (MYL, Buy, \$35.00 PT)

**Valuation:** Our PT of \$35 is based on a discounted cash flow valuation. We apply a 9.5x terminal multiple on our 2022 FCF estimate of \$2,975M, discounted back at 10.5%.

**Risks:** The key risks to our estimates, price target, and rating are MYL's ability to achieve its revenue and EPS targets as a result of slower-than-expected launches of Rx products and MYL's ability to make additional acquisitions.

# Mylan N.V. (MYL)



*Note: Closing Price and Target Price have been adjusted for corporate actions.*

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
18-Jun-15	72.56	85	Timothy Chiang	Buy
27-Oct-15	44.09	70	Timothy Chiang	Buy
11-Feb-16	41.42	60	Timothy Chiang	Buy
09-Oct-16	35.94	55	Timothy Chiang	Buy
09-Aug-17	32.08	42	Timothy Chiang	Buy
04-Oct-17	37.80	45	Timothy Chiang	Buy
05-Jan-18	44.54	55	Timothy Chiang	Buy
27-Feb-19	26.01	35	Timothy Chiang	Buy

## Perrigo Company plc (PRGO, Neutral)

**Valuation:** Our DCF analysis suggests that PRGO shares are worth ~\$60 per share. We arrive at that price by applying a 10x terminal multiple on our 2022 EBITDA estimate, discounted back at 12.5%. BTIG does not provide price targets on Neutral-rated stocks.

**Risks:** The key risks are 1) PRGO's ability to achieve its revenue and EPS targets as a result of slower-than-expected launches of its OTC/Rx products 2) PRGO's ability to make additional acquisitions 3) Continued price erosion in key segments, including the generic Rx business.

# Perrigo Company plc (PRGO)



*Note: Closing Price and Target Price have been adjusted for corporate actions.*

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
03-Jun-15	195.88	223	Timothy Chiang	Buy
22-Oct-15	147.68	190	Timothy Chiang	Buy
18-Feb-16	130.40	170	Timothy Chiang	Buy
25-Apr-16	99.40	NA	Timothy Chiang	Neutral

## Teva Pharmaceutical Industries (TEVA, Neutral)

**Valuation:** We rate Teva shares Neutral. Our DCF analysis suggests TEVA shares are worth ~\$18 per share. BTIG does not provide price targets on Neutral-rated stocks.

**Risks:** Key risks to our Neutral rating include revenues and cash flows exceeding our estimates, higher than expected cost cuts being implemented, the Co. is able to pay down debt faster than we expect, weaker than expected generic segment sales, an acceleration in Copaxone sales erosion due to multiple generics, and weaker than expected Ajovy sales.



### Teva Pharmaceutical Industries (TEVA)



*Note: Closing Price and Target Price have been adjusted for corporate actions.*

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
06-Jul-15	61.66	77	Timothy Chiang	Buy
09-May-16	52.81	75	Timothy Chiang	Buy
16-Nov-16	38.07	NA	Timothy Chiang	Neutral
11-Sep-17	18.50	24	Timothy Chiang	Buy
02-Nov-17	11.23	16	Timothy Chiang	Buy
15-Dec-17	18.61	20	Timothy Chiang	Buy
18-Jan-18	20.71	N/A	Timothy Chiang	Neutral
02-Feb-18	20.57	17	Timothy Chiang	Sell
16-Sep-18	22.85	N/A	Timothy Chiang	Neutral

## Company-Specific Regulatory Disclosures

BTIG LLC expects to receive or intends to seek compensation for investment banking services in the next 3 months from: Amneal Pharmaceuticals, Inc. (AMRX)

## Other Disclosures

Additional Information Available Upon Request

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