Perrigo®

Quality Affordable Healthcare Products®

(PRGO)

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Summary

- Perrigo has strong franchises in store branded consumer over the counter (OTC), branded OTC, and topical prescription pharmaceutical products.
- Excellent prospects for future growth in revenues and profitability.
- Competes in stable, recession resistant markets.
- Mylan attempted to acquire Perrigo in 2015. Stock price peaked at $215.73/share (April 2015). Shareholders voted against the merger.
- Failed merger and other events have driven stock price below $100/share.

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The Value Proposition

- GARP idea.
- Market Capitalization: $14.5 B; Net Debt $5.5 B.
- FCF yield: 8-10 %; Revenues: $5.2 B.
- Historically, Perrigo has been highly regarded by the market with a peak PE Multiple of 34 in 2013 and usually trading above a 20 PE for the past decade.

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- Current PE estimates (JP Morgan) are 11.8, 10.6, and 9.7 for 2016, 2017, and 2018 respectively.

- Growth in revenues + earnings, deleveraging and other factors should restore PE multiple to at least 15, closer to its consumer facing peers.

- Target price of $150-$170 not unreasonable within the next two to three years.

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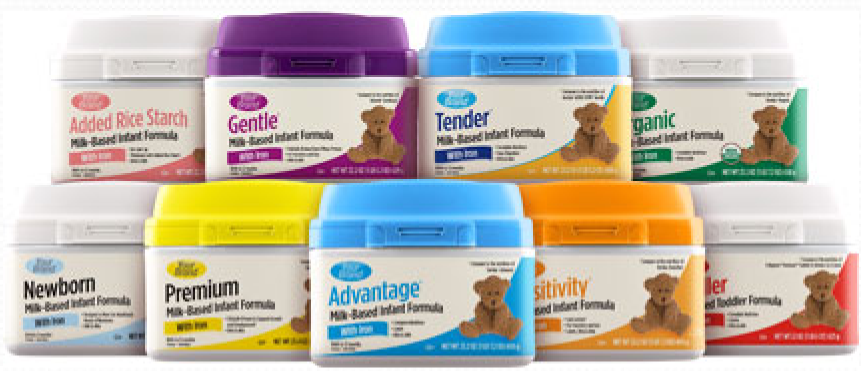
The Crown Jewel
Consumer Healthcare (CHC)

- CHC develops, manufactures, and markets OTC store brand consumer products such as cough, cold and allergy products, infant formula, vitamins, etc.

- Leading U.S. market share of 70% results in scale efficiencies and "one stop" product line for retailers.



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- Market leader in U.K. and Mexico.
- Long term growth trends favor this operation.
- Store brands are more profitable for retailers.
- Major customers include CVS, Walmart, Walgreens, Target, and Costco.

Secular Growth Drivers (CHC)

- Continued market share gains of private label OTC vs. branded products.

- Aging population will raise demand for products.

- Cost pressures in healthcare system will lead to more prescription drugs being offered as OTC products, the “RX to OTC switch”. Total opportunity of approximately $29B over next five years.

- Branded innovation benefits Perrigo OTC operations.

- One of four FDA approved manufacturers of infant formula. Steadily rising market share approaching 14%.

Branded Consumer Healthcare (BCH)

- BCH established in mid 2015 as result of $4.4 B acquisition of Belgium based Omega Pharma. Later acquired OTC brands from GlaxoSmithKline and Nauturwohl Pharma.

- Primarily sells branded OTC healthcare products in Europe.

- R&D, manufacturing, and some shared services being brought into Perrigo's infrastructure.
- Perrigo has begun distributing existing products through Omega's operations.
- Expects both cost and revenue synergies.
- $467 million write off in 1Q 2016.

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Prescription Pharmaceuticals (RX Pharma)

- Generic prescription pharmaceuticals.
- Primarily generic topicals: creams, ointments, lotions, gels, shampoos, foams, sprays, etc.
- Focus on technically challenging, high barriers to entry and extended topicals.

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- Until recently, this niche was protected from price pressures impacting the generic industry.

- Feeder pipeline for RX to OTC switches. Technical expertise important for consumer segments.

- 26 ANDAs (Abbreviated New Drug Applications) awaiting FDA approval.

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Specialty Sciences

- Royalty payments earned from Biogen on Tsysabri Multiple Sclerosis drug.

- Complex biopharma compound that is patent protected until 2024.

- 7% of FY 2015 revenue.

- Candidate for sale, though tax issues could hinder.

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Factors Depressing Stock Price

- Failure of Mylan takeover.
- Recent departure of CEO to Valeant.
- Short-term problems in absorbing Omega and partial write down in value of acquisition.

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- Pricing pressures in generics.
- Past CEO focused on debt fueled growth by acquisitions. Credit rating now BBB-/Baa3.
- New management focused on getting bad news out now.

The Good News

- Annual growth in revenues and net income expected to increase approximately 7% and 10%, respectively, from 2016-2018.

- Company guidance has revenues growing by 10-16% from $5.2 B in 2015 to $5.6-5.8 B in 2016 and adjusted EPS from $7.59 to $8.20-$8.60/share.

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- Company plans to deleverage balance sheet by $500 million per year.

- Product innovation, growing markets, market share gains and tuck-in acquisitions should insure attractive growth.

- Applying a 15 PE multiple to conservatively estimated 2018 E EPS of $10.00 per share would drive the share price to $150/share in 2.5 years.

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Conclusion

- Perrigo is a time arbitrage opportunity. Investors have lost patience with this former high flyer.

- Valuation closer to a generic/specialty pharmaceuticals company rather than a consumer OTC competitor.

- Attractive growth, stable markets, balance sheet deleveraging, new product introductions and smallish acquisitions should drive growth in revenues and earnings.

  - Price in the $150-$170 range possible within the next 2-3 years

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