



QUINTESSENTIAL
CAPITAL MANAGEMENT

Intelligent Investing



A global value fund designed to multiply your
wealth through outstanding
long term returns with an emphasis on capital
preservation

--- Private & Confidential ---

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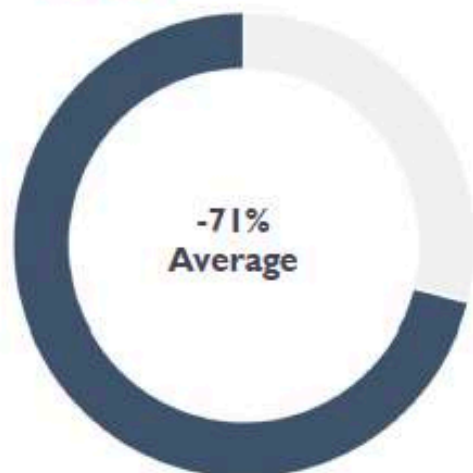
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QCM: EFFECTIVENESS AS ACTIVIST

Reduction in Market Capitalization Following Release of Thesis

\$3.3b aggregate market cap. erasure



Average Reduction	-71%
High	-100%
Low	-43%

Folli Follie SA (ATHEX)



Market Capitalization at Release: \$1.4b

January 2019 Value: \$0

Globo Plc (LSE)



Market Capitalization at Release: £100m

January 2019 Value: £0

Ability Inc (NASDAQ)



Market Capitalization at Release: \$135m

October 2018 Value: \$11m

AAC Holdings Inc (NYSE)



Market Capitalization at Release: \$730m

October 2018 Value: \$169m

Undisclosed



Market Capitalization at Release: ~\$500m

Low Value One Year Post Release ~\$150m

Aphria Inc (NYSE)



Market Capitalization at Release: \$2b

Low Value Post Release: \$1.1b



?



ALLERGAN: UNLOCKING VALUE THROUGH MANAGEMENT CHANGES

QCM May 2019 - Sohn Hong Kong Conference

(QCM is long AGN)

ALLERGAN IN A NUTSHELL



- Market Cap: \$46b (NYSE)
- Industry: pharma
- Segments: esthetics, general medicine
- Sales: \$15.7b
- EBITDA: \$7.1b
- Known for: **Botox**



CHALLENGING STOCK PERFORMANCE (-58% SINCE 2015)



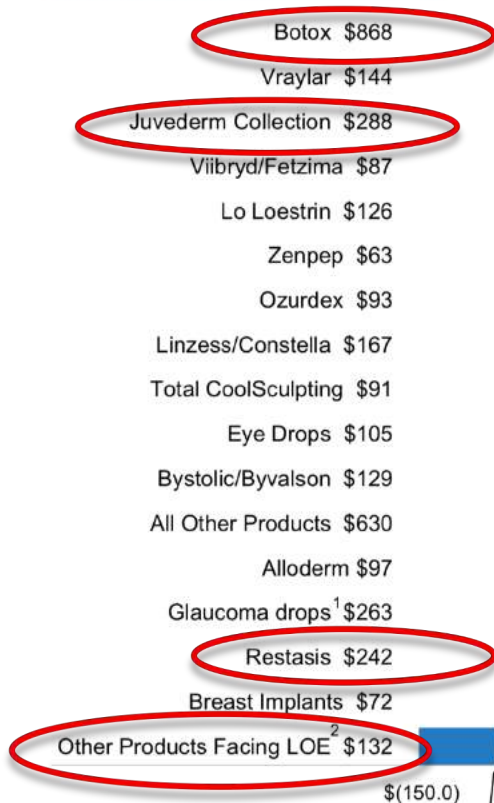
HISTORY

- Formerly Actavis.
- Redomiciled to Ireland (tax inversion)
- Generics division sale to Teva, deleveraging
- M&A spree
- Recent issues:
 - Loss of exclusivity
 - Serial write offs
 - Looming botox competition
 - Activist shareholders involved

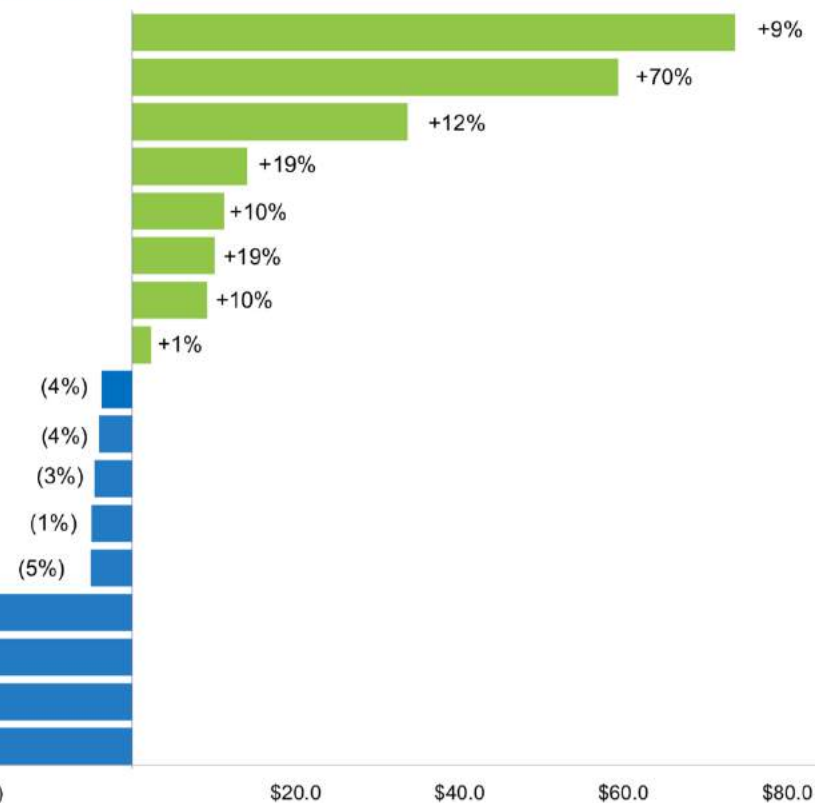


PRODUCT PORTFOLIO

Global Revenues Q1'19 (\$M)



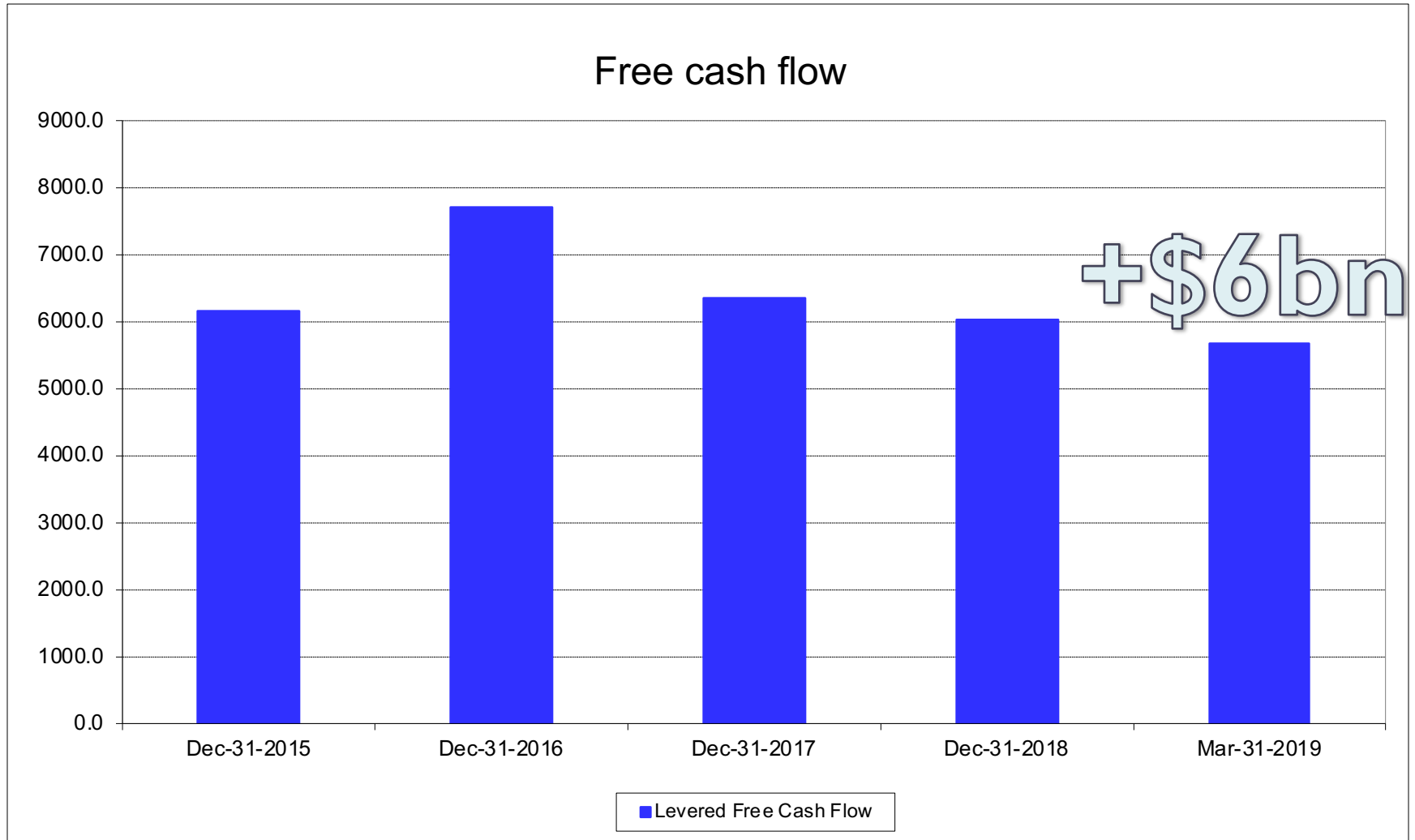
Revenue Growth Q1'19 vs Q1'18 (\$M)



NOT EXACTLY A THRIVING BUSINESS AT FIRST SIGHT...



...BUT APPEARANCES CAN BE DECEPTIVE...



AGN: INEXPENSIVE BY MOST MEASURES

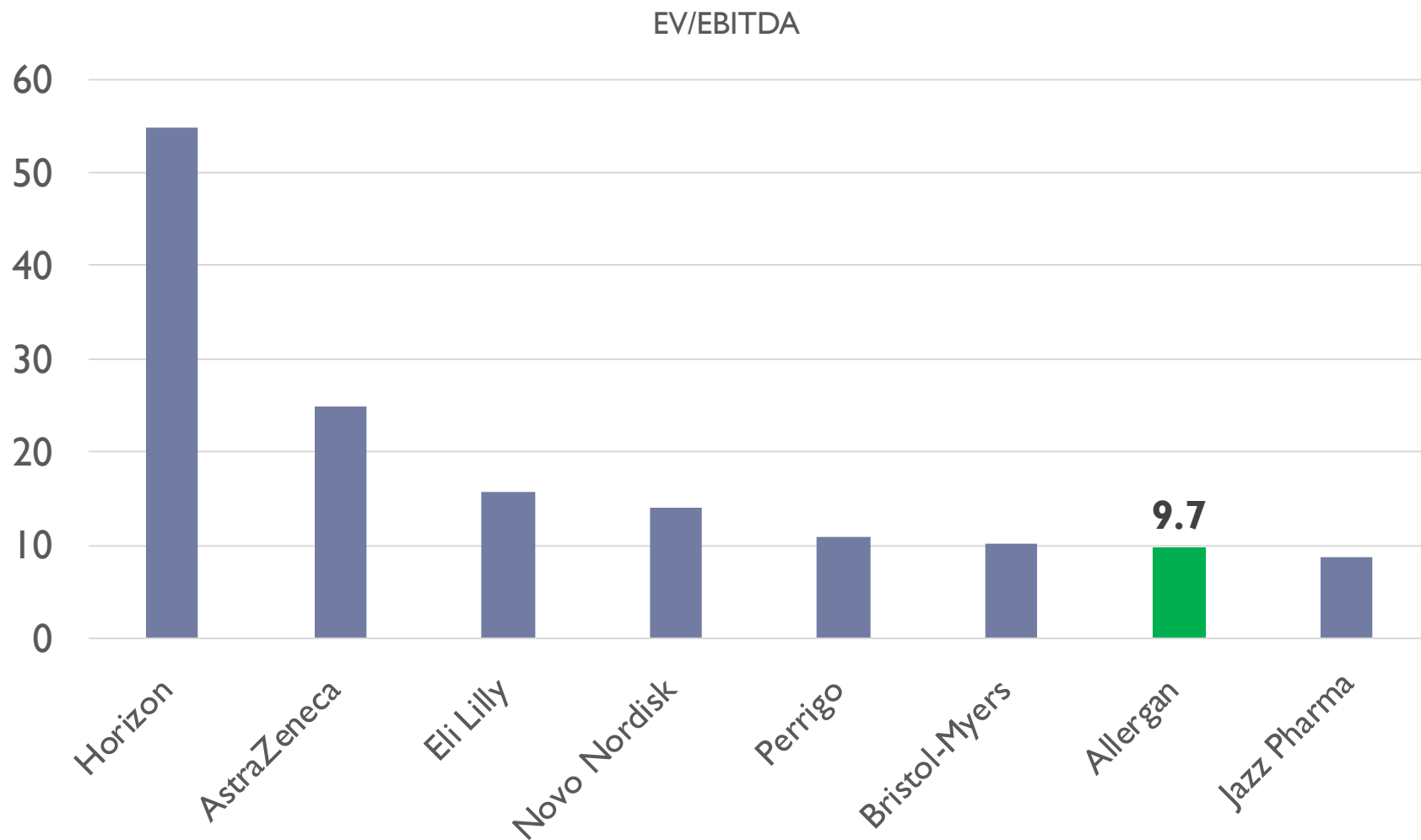
13% FCF yield

8x P/E

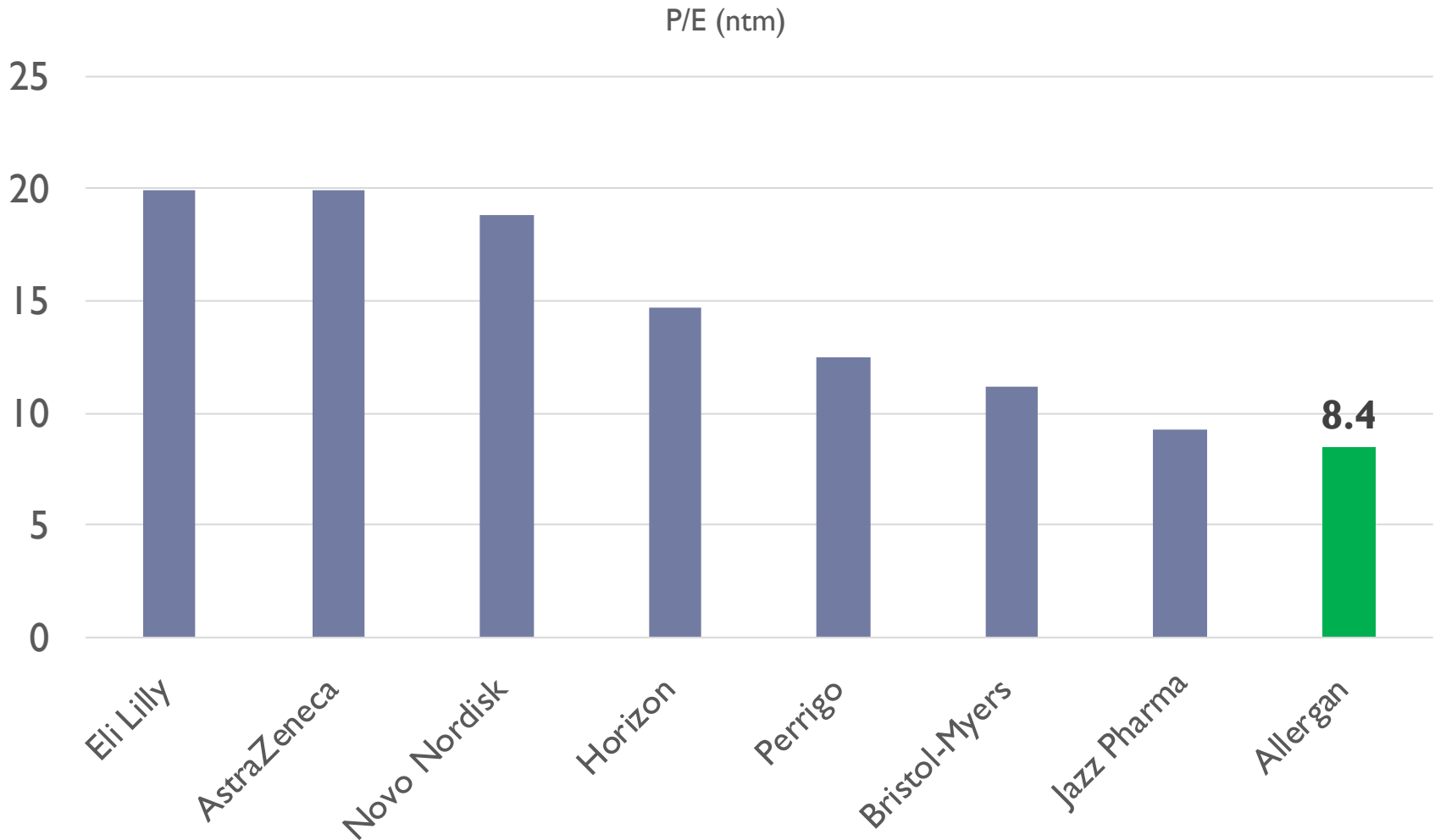
10x EV/ebitda



EV/EBITDA: 9.7 (VS 13.5 MEDIAN*)



VALUATION: FWD P/E 8.4 (VS. 17.9 MEDIAN*)



WHY SO CHEAP? PLENTY OF UNCERTAINTY

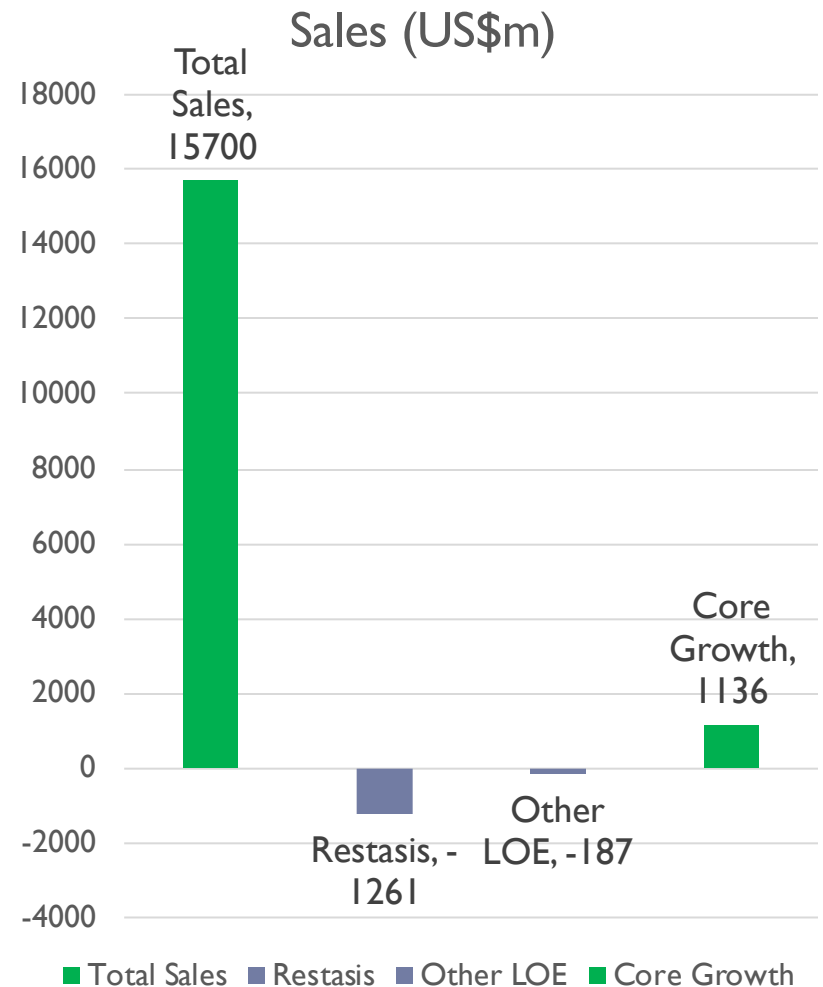
- Botox: fear of new competitors
- Write offs: poor management?
- Loss of Exclusivity
- High leverage (3.2x EBITDA)



LOSS OF EXCLUSIVITY: CAN BE MANAGED

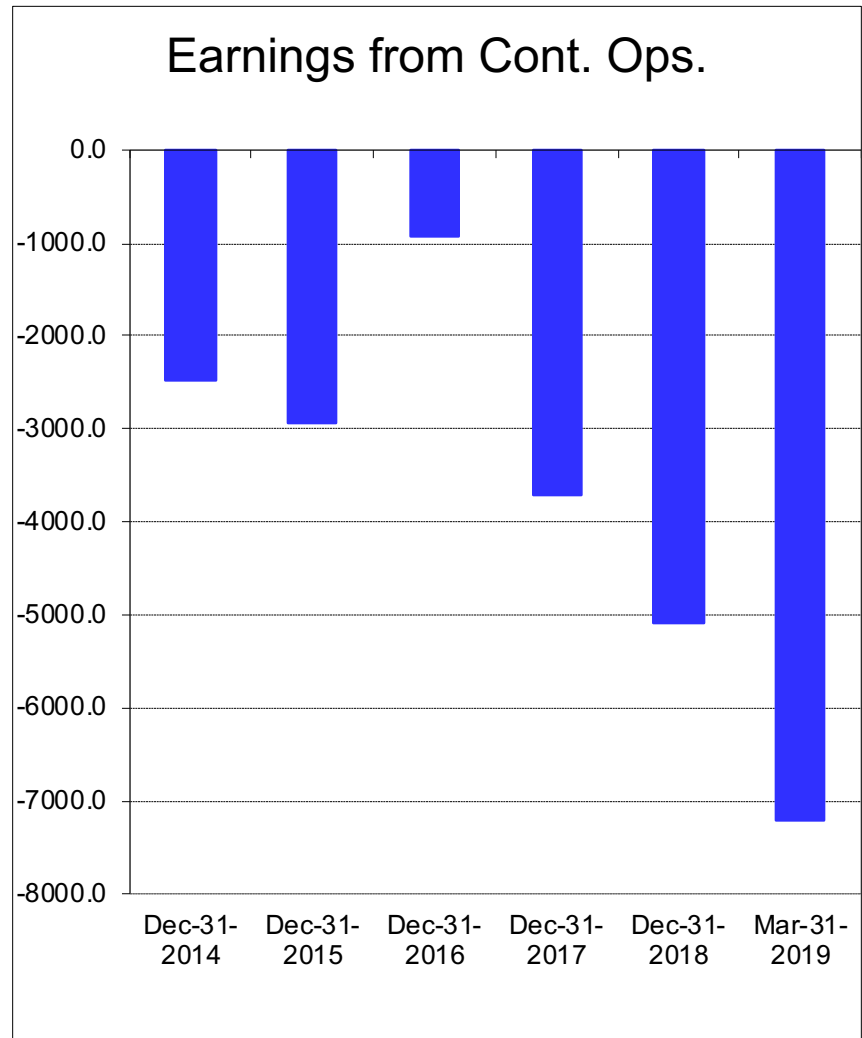
- Restasis + other LOE
- Only 9% of sales affected
- Mitigated by core growth*

→ **little/no impact on valuation**



WRITE OFFS: POOR MANAGEMENT?

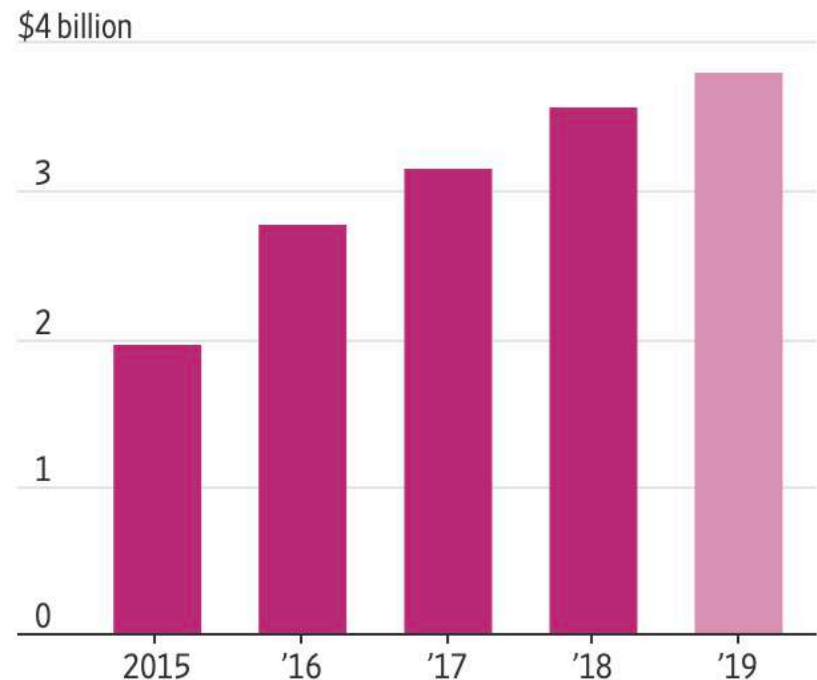
- Questionable M&A
- Spectacular failures (e.g. Rapastinel)
- No new champions
- **\$13.4bn** of balance sheet write-downs (in 4 years).
- Underperforming pipeline



BOTOX: GREAT FRANCHISE, BUT NEW COMPETITION LOOMING

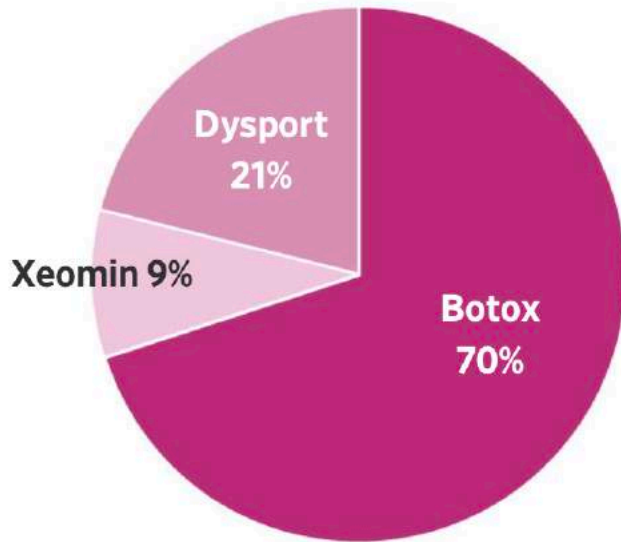
- 24% of total AGN sales
- Fast (9%) growth rate
- Demographic tailwind
- High margin
- Limited regulatory risk (cash-based)

Global sales of Botox



...STILL DOMINANT

Cosmetic toxin market share

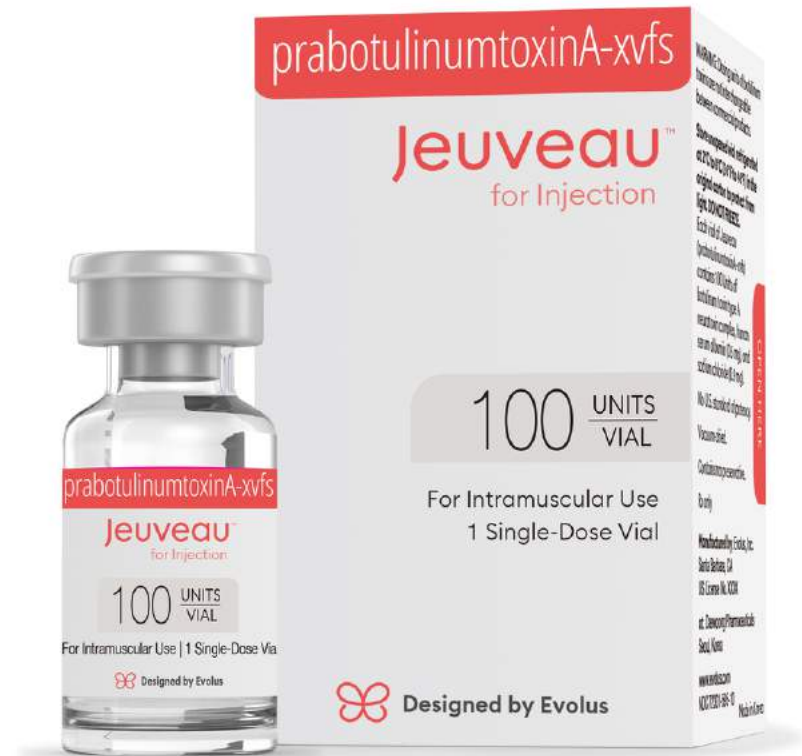


Source: Goldman Sachs



...BUT NEW COMPETITIVE THREATS: JEUVEAU

- Jeuveau (by Evolus)
- Seems clinically equivalent
- Marketed aggressively
 - Discounts to doctors
 - Branding
 - Social media



...BUT NEW COMPETITIVE THREATS: **DAXI**

- Daxi (by Revance)
- Might be approved in 2020 for frown lines.
- Seems to last significantly longer than Botox*.

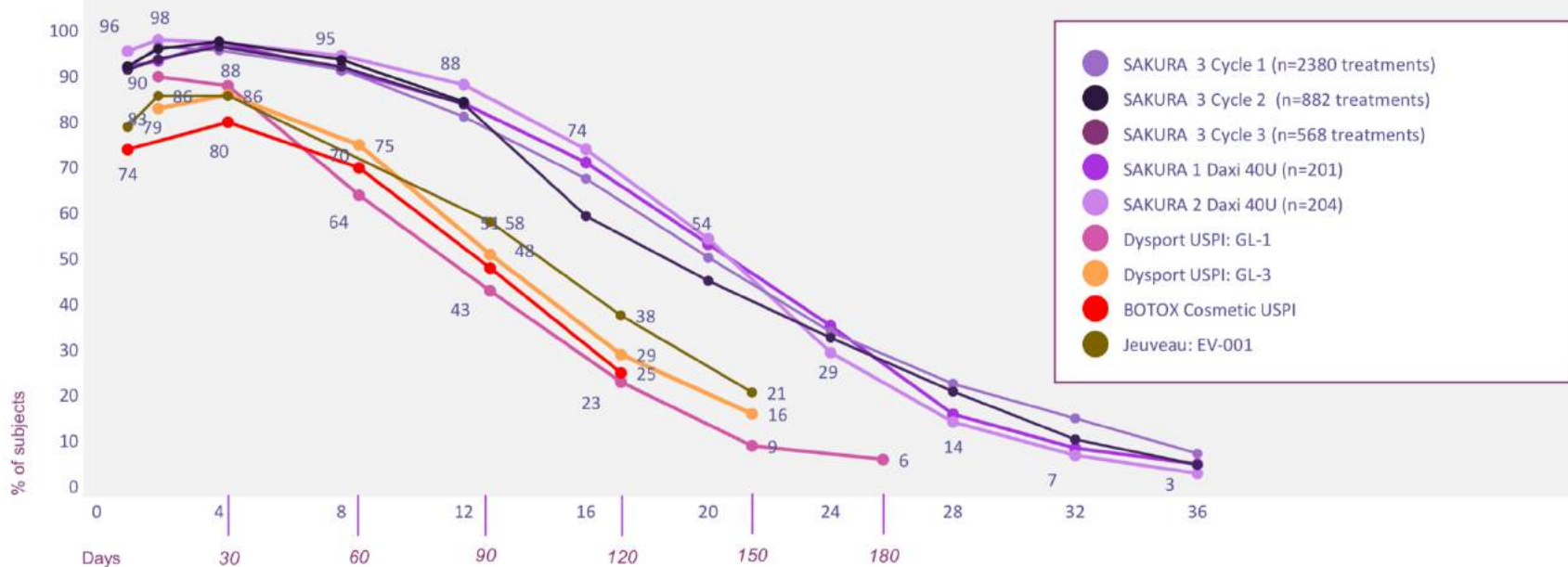


DAXI CLINICAL STUDIES



SAKURA 1, 2 and SAKURA 3 Results BOTOX® Cosmetic USPI¹, Dysport® USPI¹, Jeuveau² Data

None or Mild Response Rates on 4-Point Investigator Assessment over Time



ASSESSING COMPETITIVE THREATS: BULL CASE

- **Brand** strength
- Some customer **lock-in**
- cosmetic portfolio **synergies**
- **Resilience** vis-à-vis old, stronger competitors
- Competitors provide little/no new benefits, **no clinical history**.
- Botox upcoming **longer-lasting** product



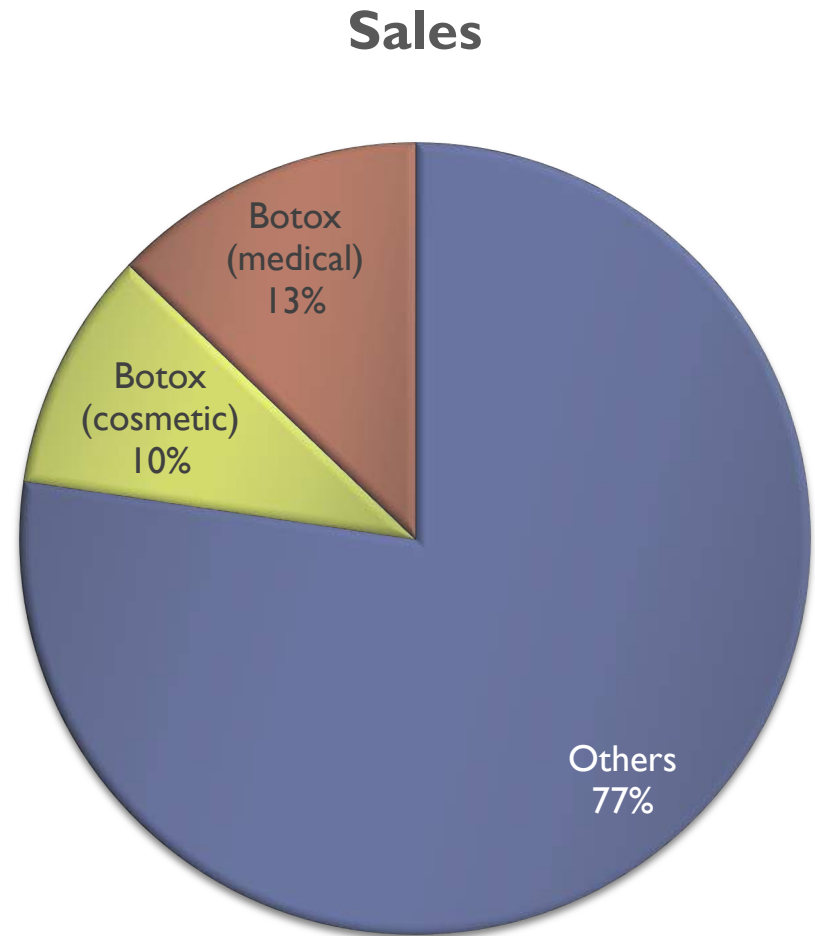
ASSESSING COMPETITIVE THREATS: BEAR CASE

- Some Botox clients will switch, if incentives are large enough.
 - Product choice usually driven by doctor, not patient.
 - Competitors may provide discounts to doctors.
 - Safety profile not an issue (products perceived as nearly equivalent).
- New products may be more effective/longer lasting



BOTOX WORST-CASE-SCENARIO: NOT SO BAD

- Cosmetic Botox: **only 10% of AGN's revenue.**
- Medical Botox less threatened.
- Doctors store 2/3 products max. Botox must-have.
- Growing market (CAGR 7.6%) should accommodate new supply



MANY WAYS TO WIN...

- Management **shakeout**
 - Total vs biz dev
- **Stand still**, deleverage & buyback
- Botox **fears proven unfounded**
- **Split** cosmetic/medical
- **Sale**



NOTABLE INVESTORS

David Tepper (Appaloosa)



Seth Klarman (Baupost)



WHY WE BELIEVE MANAGEMENT HAS TO GO

- ✓ Failed M&A policy
- ✓ Bad buyback timing
- ✓ Questionable compensation
- ✓ Lack of candor
- ✓ Main reason for depressed stock price



CONCLUSION

- Strong core portfolio.
- Botox threats probably overblown
- Very strong FCF generation
- Deleveraging & buyback underway
- Price multiple depressed
- Activists safeguarding questionable management



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