Business Strategy/First-Quarter Results

Hendrickson backs Perrigo

Perrigo's three core businesses – Consumer Healthcare Americas, Consumer Healthcare International and Prescription Pharmaceuticals – remain "fundamentally sound" and have good prospects for growth, according to the firm's chief executive officer John Hendrickson.

Speaking at the Jefferies Global Healthcare Conference in New York, US, Hendrickson – who has announced his intention to retire (see page 23) – said that despite the company's tumbling stock price, Perrigo's business units were still "solid assets that deliver good value".

The company's stock price now sits at around US$70 (€62) having fallen from a high of about US$190 two years ago when generics giant Mylan launched a takeover bid (**OTC *bulletin***, 17 April 2015, page 1) that would ultimately end in failure (**OTC *bulletin***, 27 November 2015, page 1).

"We have a platform that can grow," Hendrickson insisted. "This platform includes our core US store-brand business, the retail relationships and everything we have in Europe [with Omega Pharma], as well as a fundamentally strong Prescription business."

"This platform can grow organically, and inorganically through acquisitions," he noted. "There is a great base to start from. It is certainly different to where it was two years ago, the marketplace is different, the places we play are different, but the fundamentals of the business are extremely strong."

"I believe we are on the right track," Hendrickson said, "and heading in the right direction."

Clearly underperformed

Commenting on the prospects for Consumer Healthcare International – which comprises the Omega business and basket of ex-GlaxoSmithKline (GSK) brands, as well as Perrigo's OTC businesses in Australia and Israel – Hendrickson said while it had "clearly underperformed what we expected" it was "still a good business".

With a turnaround strategy in place at Consumer Healthcare International – which had seen the firm "get rid of some of the parts that did not make sense" – the business had "reached a good base", he claimed, and profit margins had begun to improve.

"The core business is performing well," Hendrickson insisted.

Perrigo spent 2016 battling problems at Consumer Healthcare International – formerly known as Branded Consumer Healthcare. In April, the firm initiated a review of its European OTC operations in a number of "selected countries".

With the review ongoing, Perrigo announced in November it was to take legal action against Omega's former owners (**OTC *bulletin***, 25 November 2016, page 1). The decision was made after the business was hit with a US$1.67 billion impairment charge in its third quarter ended 1 October 2016.

Commenting in its recently published annual report on the litigation, Perrigo said Omega's former owners had "asserted a counterclaim for monetary damages" contending that Perrigo had "breached the duty of good faith" in performing the acquisition.

Perrigo said it denied that the sellers were "entitled to any relief (including monetary relief) under the counterclaim".

Hendrickson made his comments at the Jefferies conference a week after the firm filed its delayed first-quarter 2017 'Form 10-Q' with the US Securities and Exchange Commission (SEC).

"Actions taken this quarter by the Perrigo leadership team to improve our cost structure have established a more efficient operating platform that enables margin expansion with new product launches," Hendrickson commented.

Perrigo reported group sales that declined by 11% to US$1.19 billion for the three-month period ended 1 April.

At Consumer Healthcare Americas – which comprises its OTC, infant formula and animal health operations in the US, Canada and Mexico – sales had slipped back by 9% to US$583 million, the company said, primarily due to the sale of its US vitamins, minerals and supplements (VMS) business to contract manufacturer International Vitamin (**OTC *bulletin***, 30 June 2016, page 5).

Turnover at Consumer Healthcare International had declined by 15% to US$375 million in the three months, Perrigo noted.

The decision to exit certain "unprofitable European distribution businesses", in combination with negative currency effects, were blamed for the double-digit drop.

Meanwhile, Perrigo reported Prescription sales of US$217 million in the first quarter, and 'other' sales of US$19 million.

Perrigo returned to group profitability during the quarter, as the firm moved from a US$232 million operating loss to a US$129 million operating profit year-on-year, having paid a considerable impairment charge in the first quarter of last year.

"I am pleased that our consolidated first-quarter 2017 top- and bottom-line results were consistent with our plan," Hendrickson said, "with our operations continuing to deliver strong cash flow conversion."

Prior to releasing its first-quarter results, Perrigo published its delayed 'Form 10-K' annual report. Group sales had advanced by 5% to US$5.28 billion for the 12 months, the company reported.

Turnover at the Consumer Healthcare Americas unit had slipped back by 2% to US$2.51 billion, Perrigo said. This had been due to "mild" allergy, and cough and cold seasons.

Consumer Healthcare Americas reported operating income down by 9% to US$400 million, due primarily to impairment charges relating to its animal health business.

Turning to its Consumer Healthcare International division, Perrigo reported sales up by 21% to US$1.65 billion.

Omega boosts sales

An additional three months of sales from Omega in 2016 – which the company acquired at the end of March 2015 (**OTC *bulletin***, 17 April 2015, page 3) – had been behind the double-digit rise in sales at Consumer Healthcare International, the company noted.

Growth at the division had been held back by "weaker" sales in the lifestyle and natural health/vitamins categories.

Consumer Healthcare International posted an operating loss of US$2.09 billion for the 12 months, as a result of "intangible asset and goodwill impairment charges" relating to Omega, totaling US$2.0 billion, in addition to numerous restructuring charges "related to strategic organisational enhancements".

Meanwhile, Perrigo reported Prescription sales of US$1.04 billion in 2016, and other sales of US$78.5 million.

The company delayed filing its Form 10-K annual report with the SEC earlier this year after announcing it intended to divest its rights to royalties connected to multiple sclerosis treatment Tysabri (**OTC *bulletin***, 3 March 2017, page 7).

"The scope of the work required to finalise the company's financial statements," Perrigo explained at the time, "includes the final impairment calculations related to the announced sale of Tysabri, plus deferred tax assets and other related effects at Omega Pharma."

Perrigo has reclassified Tysabri (natalizumab) as 'a financial asset' rather than an 'intangible asset', following an "extensive evaluation of the facts and circumstances required to determine the appropriate classification". OTC