Perrigo (PRGO) Earnings Report: Q4 2015 Conference Call Transcript

The following Perrigo conference call took place on February 18, 2016, 08:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Art Shannon; Perrigo; VP of IR
- Joe Papa; Perrigo; CEO & Chairman
- Judy Brown; Perrigo; CFO

Other Participants

- Elliot Wilbur; Raymond James; Analyst
- Louise Chen; Guggenheim Securities LLC; Analyst
- Mark Goodman; UBS; Analyst
- David Risinger; Morgan Stanley; Analyst
- Chris Schott; JPMorgan; Analyst
- Gregg Gilbert; Deutsche Bank; Analyst
- Linda Bolton; B. Riley; Analyst
- Douglas Tsao; Barclays Capital; Analyst
- Annabel Samimy; Stifel Nicolaus; Analyst
- Tim Chiang; BTIG; Analyst
- Jami Rubin; Goldman Sachs; Analyst
- Jason Gerberry; Leerink; Analyst
- David Steinberg; Jefferies; Analyst
- David Norris; Wells Fargo Securities; Analyst
- Sumant Kulkarni; BoA Merrill Lynch; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

At this time I'd like to welcome everyone to Perrigo's calendar year 2015 fourth-quarter earnings results conference call.

(Operator Instructions)

I'll now turn today's conference over to Art Shannon, Vice President of Corporate Affairs and European Investor Relations. Please go ahead, sir.

Art Shannon (VP of IR):

Thank you, Operator. Welcome to Perrigo's fourth-quarter and calendar 2015 earnings conference call.

I hope you all had a chance to review our press release which we issued earlier this morning. A copy of the release is available on our website. And also on our website is the slide presentation for this call.

Before we proceed with the call, I would like to remind everyone that during this call management will make certain forward-looking statements. Please refer to the important information for investors and shareholders and Safe Harbor language regarding these statements in our press release issued this morning.

In addition, in the appendix for today's presentation, we have provided reconciliations for all non-GAAP financial measures presented. I would also like to note that calendar year data for 2015 was derived from the Company's audited results for the six-month period ending December 31, 2015, and unaudited results for the fiscal quarters ended March 28, 2015 and June 27, 2015. Calendar year data for 2014 was derived from the Company's unaudited results for the fiscal quarters ended March 29, 2014, June 28, 2014, September 27, 2014, and December 27, 2014.

Following management's review of the presentation we will open up the call for questions.

And now I'd like to turn the call over to Perrigo's Chairman and CEO, Joe Papa.

Joe Papa (CEO & Chairman):

Thank you, Art. And welcome, everyone, to Perrigo's fourth-quarter and calendar year 2015 earnings conference call. Joining me today is Judy brown, Perrigo's Executive Vice President and Chief Financial Officer.

Now, here's the agenda for today's call. First, I will walk through some of the key financial highlights for calendar 2015, then I'll highlight the advantages of our focused strategy within our consumer-facing OTC global platform, which, when coupled with the earnings power of our prescription pharmaceutical business, creates a truly unique, diversified and sustainable business. After that Judy will go through the details of the fourth-quarter results and guidance for calendar 2016. Then we'll close and an opportunity for Q&A.

Before starting into the call, I would like to take a moment to highlight some changes in our investor relations group. As part of a previously announced consolidation of certain functions in Ireland, Art Shannon will relocate to Ireland and will be assuming the role of Vice President of Global Corporate Affairs and European Investor Relationships.

Art will continue to oversee both internal and external global communications and will continue to be the lead point of contact for media and government relations. In addition, he will now be responsible for establishing a global government relations based in Dublin and expanding Perrigo's shareholder focus investor relations program in Europe. I hope you can join me and congratulate both of them.

On slide 5, you can see this was a record year for Perrigo across all key metrics, from record net sales through record adjusted operating income. This highlights our continued growth from a combination of our durable consumer healthcare model to our diversified Rx portfolio and inorganic acquisition strategy.

Overall, 2015 was another great year. Perrigo achieved record net sales for the year of $5.4 billion, a 28% increase, with record adjusted operating margins. We expanded adjusted gross margin by 400 basis points to 48%, driven by strong business mix, including the addition of our new branded consumer healthcare or Omega business. And of course supply chain efficiencies.

Adjusted operating income increased 29% year over year to $1.5 billion. Finally, as you see here, our net operating cash flow for the full year increased to $1.05 billion. Also, another record for Perrigo .

2015 included a number of key growth drivers. We introduced over 160 new products in key categories, including the store brand version of Mucinex D and the generic prescription version of Clobex spray. We also expanded our business by completing seven acquisitions, including five focused on building geographic scale and capabilities within our consumer healthcare platform.

We created our pan European platform with the acquisition of Omega. We added softgel capabilities from the acquisition from Patheon, Mexico. We acquired a new portfolio of leading OTC brands from GSK. We added the Yokebe product line to our BCH portfolio. And we added our first US branded consumer healthcare product, ScarAway.

I would like to take a moment to thank the dedicated Perrigo employees who, amidst some uncertainty last year, weathered a demanding year. Your unwavering commitment to delivering quality, affordable healthcare product to customers and patients across the globe was truly outstanding. And you did it all while delivering record financial performance for the year. Thank you for all your dedication and great work.

You can see on slide 6 the operational achievements by segment on slide 6. CHC experienced a 3% growth in net sales on a constant currency basis. Meanwhile, operating and manufacturing efficiencies enhanced adjusted operating margin, which were a record in 2015. This equated to an impressive adjusted operating income for consumer healthcare, which represented a 22% increase from calendar 2014.

To put this in context, adjusted operating margin increased by 330 basis points. Our store brand business is doing great and without the benefit of a normal cough-cold-flu season.

Another key highlight for consumer healthcare was the strength of our infant formula category. We have continued to invest in this business, implementing key strategies, including increasing our direct-to-consumer and doctor marketing efforts. These and other efforts have led to infant nutrition business growing 6% in 2015.

I am confident we can translate learnings from this business to other areas of our global consumer-facing platform. Congratulations to the entire CHC team for another great year of record earnings.

The Perrigo Rx pharmaceutical business had another great year, delivering net sales growth of 14% year over year on a constant currency basis. We continue to have the best Rx pipeline in our Company's history and remain excited about the future of this segment. Thanks to the entire Rx team for a great performance they delivered this year. Further, you can see in our specialty segment net sales increased 12% compared to last year on a constant currency basis.

Let me turn to the branded consumer healthcare segment. This segment had a number of achievements in 2015. First, our top 20 brands grew 7% on a constant currency basis during 2015 since our ownership in April.

Second, our new product launch, Bronchostop, became the fastest growing cough-cold product in the UK market. Third, we acquired NiQuitin family of products from GlaxoSmithKline, which performed above our expectations, as we relaunched these products in key markets in the branded consumer healthcare platform.

We have a great European platform in place, which provides a broad distribution network, highlighted by unique access to the greater than $30 billion OTC European space, representing a great opportunity in a number of markets with high barriers to entry. Many of our branded products ranked first or second in net sales in their respective markets. They are growing organically through line extensions and by launching existing products into other European markets.

We also plan to continue growing inorganically through strategic product acquisitions in our European platform. Perrigo is a unique position of the top five OTC company by revenue in Europe, contributing to our geographic diversification within the global OTC marketplace. Due to the reasons outlined, we continue to expect the BCH OTC platform to have a growth rate higher than the market averages.

Now, notwithstanding these comments, the fourth-quarter results in our BCH segment were below our expectations. Let me review a few factors that contributed to the under performance.

First, as you are likely aware, we did not get the benefits of a normal cough-cold-flu season in Europe. Second, the branded consumer healthcare segment continued to experience lower net sales due to channel dynamics with the generic distribution that I discussed last quarter. These dynamics accounted for approximately 25% of the branded consumer healthcare net sales miss against our expectations.

Third, additionally, in December, the branded consumer healthcare team made considerable A&P investments -- advertising and promotion investments -- to grow certain branded lifestyle products, including a weight loss product, which typically peeks during summer months. They did so with the expectation of converting these products into a full-year maintenance product.

Unfortunately, these investments did not generate the desired sales in the quarter, even though they may still prove useful for a longer-term perspective. In any event, it is clear that this large A&P investment adversely affected the adjusted operating margin this quarter.

Finally, in certain end markets, we had some challenges, including, most notably, Spain and Germany, which accounted for nearly 60% of the sales missed to our internal expectations. We are taking actions to restructure our business in these locations.

As outlined in this morning's release, we realized a pretax noncash impairment charge of approximately $185 million related to intangible assets acquired in conjunction with the $4.5 billion Omega acquisition, or approximately 4% of the acquisition price. To be clear, we incurred this impairment because the fair value of certain acquired branded consumer healthcare brands was below the carrying value. However, the fair value of other acquired intangibles improved but these increases are not recognized under accounting rules.

Let me now spend a few minutes to detail our plan to drive performance in the BCH business. Overall, the plan will focus on improvements in organizational design or people, business processes, and product resource allocations.

First, from a people point of view, we are changing the management structure of the BCH segment by expanding the BCH executive committee. Also, we are putting Perrigo's matrix leadership model in place, which we believe will deliver better transparency and accountability and ensure continuing concentration on return on investment.

Also, in order to address the factors that certain geographies in fourth-quarter results, we are going to take specific actions in select countries to right-size the business, streamline, and restructure sales organizations in the affected geographies, including Spain and Germany. As part of this leadership change, President John Hendrickson of Perrigo has joined the BCH executive team as part of their team.

Second, from a profit point of view, we are strengthening the line of connectivity and functional accountability of the BCH business with Perrigo standards. We are implementing four key process improvements -- number one, sales forecasting, inventory control and operations planning; number two, financial forecasting, planning and analysis; number three, supply chain integration; and, number four, an incentive-based compensation that is focused on adjusted operating income and return on invested capital, similar to the existing Perrigo system.

From a product standpoint, we have conducted a portfolio review and are taking actions in BCH to exit slower-growing or under-performing brands such as Etixx sports drink product, which does not meet our internal return on investment hurdle. This will allow us to reallocate these resources to higher growth products.

The branded consumer healthcare business results in the fourth quarter were a personal disappointment to me. I recognize my actions will speak louder than my words, so I am committing a significant allocation of my time over the next six months to be in Europe while I actively work with the BCH executive team and country general managers to drive these initiatives forward.

I am confident that all these actions, when taken together, will accelerate the BCH segment growth. I again want to stress our commitment and conviction around the long-term prospects of the BCH business and the European OTC marketplace as a whole.

Now, with that said, let me step back and talk about and discuss our overall strategy within OTC and why we continue to be excited about building our Perrigo position as a global OTC leader In fact, it is clear we are a top five player with approximately 70% of our sales delivered on a consumer OTC platform.

Turning to slide 11, you can see our strong market position in OTC healthcare will be driven by megatrends within global healthcare. The efficiency and affordability of OTC products versus prescription pharmaceuticals appeals to the strong, growing, aging population and shift in healthcare trends.

Further, new OTC innovation and Rx to OTC switches provide us with numerous opportunities to continually launch new products. All this contributes to our 2016 top-line organic growth framework of approximately 5% to 10%.

As you can see, slide 12, in 2015, based on IRI MULO data, the store brand OTC dollar growth rate was over 3%, as the data is beginning to lapse the impact in 2013 return of prominent national brand competitor. In 2016, we believe the growth in store brands will accelerate, highlighted by the store brand launches of Nasacort, Flonase, and the entire Mucinex family of products.

Slide 13 depicts the strength in our infant formula business. We have focused much attention on accelerating the growth in this category, and the great performance we are now seeing is a result of solid execution. The infant formula category has a meaningful contributor to our overall growth, with Perrigo realizing an even larger share of the category.

We have implemented a number of key strategies over the years, including enhanced labels and a refresh of the store brand packaging. And now, we are achieving the return on these investments evidenced by the increasing market penetration.

We have done this by leveraging Perrigo's world-class operating model, building cross-functional leadership, and investing in infrastructure and marketing. As a result of these investments, we have been able to capture over 13% of the overall market.

As we look ahead over the next three years, we see promising opportunities within our new product pipeline. We expect to launch greater than $1.2 billion in our new products by 2018 across all segments. The majority of these will enhance our durable consumer-facing revenue stream, with about 70% of these new product sales over the next three years being in the consumer-facing segments.

Turning to slide 14, our Rx pipeline is strong, new product opportunities ahead, equating to greater than $5.5 billion in prescription brand sales over the next three years. In addition, we have 25 ANDAs pending FDA approval, 5 Paragraph IV Litigations, and 6 projects in clinical studies.

I also want to take a moment to highlight the record-breaking promotion that was executed by our consumer healthcare team, which led to the shipment of over 300 million tablets across the country to a single customer, on slide 15. This is a testament to our store brand team and the value of our partnerships with our retail customers. I want to pass along my congratulations to the team. Great job.

Now, let me turn it over to Judy.

Judy Brown (CFO):

Thanks, Joe. Good morning, everyone. As Joe previewed, we closed 2015 delivering record financial results in an extremely busy year. Every year since 2015, the team has posted record consolidated calendar year net sales, adjusted operating income, and adjusted margins. While this is quite an accomplishment, it's also quite clear to this team, we did not meet our calendar 2015 guidance for adjusted earnings per share due to a few factors in BCH, which Joe has already discussed in detail.

Looking ahead, the team has outlined a path forward for year-over-year adjusted earnings growth of 25% to 29% in 2016. And I'll discuss the details incorporated in the updated guidance later in the presentation.

But, first, as you can see on slide 19, consolidated results for Q4 were driven by the strength of our durable business portfolio, highlighted by net sales growth of an impressive 34% year over year on a constant currency basis, with record adjusted gross margin. Obviously the year-over-year metrics for Q4 include the incremental contribution from BCH, which was not a part of our business this time last year.

Turning to CHC on slide 20, in the quarter net sales grew by 6% on a constant currency basis, led by strength in sales of allergy products, namely Cetirizine D and Loratidine; our nicotine replacement franchise benefiting from the year-over-year absence of a national brand competitor; and continued store brand penetration and contract sales within the infant formula category, which Joe touched on earlier. In addition, we recognized $60 million in new product sales, led by strong consumer demand for store brand versions of easily digestible infant formulas.

This was offset by a net sales decline of $19 million in existing products, primarily in the diabetes category, as well as the analgesics category, which was impacted by the extremely mild cough-cold season in the US and the UK. Greater sales of higher-margin products versus last year, high level of production volumes and plant efficiencies, and improved commodity costs compared to the prior year led to record adjusted gross margin, which expanded 140 basis points year over year.

On slide 21, net sales in BCH were led by top 20 brands, which achieves 6% growth year over year on a constant currency basis. New products, including the GSK portfolio and the Yokebe brand, both of which we acquired in 2015, collectively contributed $65 million to the BCH total net sales.

Adjusted gross margin varied from our expectations due to several factors, including slightly unfavorable brand mix and the impact of costs associated with excess and obsolete inventory charges in the quarter. Additionally, as Joe noted, fourth-quarter brand advertising and promotion investments to support certain sales initiatives were larger than anticipated. These were the primary factors in BCH which drove Perrigo's bottom line miss.

Turning to slide 22, the Rx segment net sales were highlighted by new product sales of $25 million, consisting primarily of the launches of clobetasol spray and the generic version of BenzaClin. These volume increases were offset by a decline in net sales of the generic version of AndroGel 1%, as new competition entered the market.

Turning to slide 23, specialty sciences net sales were $84 million in the quarter, up 2% on a constant currency basis.

Before I turn to the forecast, a quick comment on the balance sheet. As of December 31, 2015, total cash on the face of the balance sheet was $418 million, and total debt was $6 billion. While the process of our deleveraging plan slowed due to acquisitions and share repurchases in the fourth quarter, we are fully committed to delevering our balance sheet and to our mid BBB investment grade rating.

It is our intention to fund our share repurchase program out of ongoing cash flows and, to the extent the use of those cash flows for share repurchases would impede our M&A strategy or our delevering goals, we would slow or suspend the program for a period of time. As a reminder, our share repurchase program is for 36 months until late calendar 2018. Quarterly, given our cash flows generated and our commitment to delever, we will evaluate cash available for M&A and/or share repurchases.

Now, turning to slide 24, you can see our updated guidance for calendar 2016 of $9.50 to $9.80 per share. This guidance reflects EPS growth of approximately 25% to 29% compared to 2015 adjusted diluted EPS of $7.59 per share.

As background, on October 22, 2015, we provided our original guidance for 2016. In January, we provided an update to this 2016 guidance. I'd like to point out that we are not changing the expected baseline performance of $9.50 adjusted diluted earnings per share or the expected EPS growth rate.

What has changed, however, and we're very open about this, is that we now believe the top end of the range is $9.80 adjusted diluted EPS. Let me explain. Our upside growth drivers remain unchanged -- over $400 million in new product launches; continued supply chain efficiencies across segments; the contribution from the closed acquisitions, including the most recent Tretinoin family of products; and, finally, the transformation of our supply chain structure into our global center of excellence headquarters in Ireland.

What has changed in our guidance, however, are the BCH dynamics previously discussed. It will take time to benefit from the people, process and product changes that Joe described earlier. While these items will reduce our ability to capture the upside originally expected in 2016 in BCH, we expect to continue to drive strong earnings growth for the entire Company.

Looking at the full P&L, we expect net sales in the range of $5.9 billion to $6.2 billion. Moving down this slide, we forecast adjusted DSG&A to be approximately 17.5% of net sales and R&D at around 3%.

This leads to our expected adjusted operating margin for 2016 of between 29% and 30%, which would represent solid expansion. Our adjusted effective tax rate is expected to be approximately 14%, which is a much lower rate in the P&L than just three short years ago.

Please note that 2016 guidance does not include contributions from the VMS business and we are actively marketing the sale of our India API business, as well. Both of these operations are now classified as assets held for sale. For comparison purposes, please remove net sales of approximately $40 million per quarter for VMS, from the consumer healthcare net sales line in 2015 from your models.

In addition, we anticipate that approximately 40% of our adjusted EPS contribution will be weighted to the first half of 2016 and 60% to the second half of the year. Let me walk you through the key building blocks of this first half/second half dynamic.

First, we expect our CHC business to experience a shift in product mix due in part to the return of a branded competitor in the smoking cessation category, and in part to the previously announced suspension of sales of the Guaifenesin 600 milligram ER product, which I will remind you is 100% owned by Perrigo . We expect this product to return to market in the second half of 2016. Looking to the rest of the Mucinex family, we expect volumes to grow, though these products are at lower margins as they are partnered products.

Second, we are now in the mist of a lackluster cough-cold season. However, as always, we are planning for a normal season next fall and, therefore, our cough-cold categories are more heavily weighted to the second half of the calendar year. Third, R&D investments are expected to be higher in our legacy

CHC and Rx segments in the first half of 2016 compared to the prior year due to commitments to launching new products.

And, fourth, new products are expected to be a sizable driver for the year, with greater than $400 million in new product sales expected to phase in over the course of 2016. As an example, Proair will launch late in the year, and given these dynamics, timing of new product launches are expected to have a more sizable impact on the 60% earnings weighting to the second half of the calendar year.

In addition to the items just discussed, I would like to make a few comments on the first quarter. First, I would like to highlight the year-over-year inclusion of shares outstanding and interest expense for the Omega acquisition in the first quarter, which will impact the year-over-year EPS comparison.

Second, due to seasonal sell-in, BCH allocates approximately 27% to 30% of their annual advertising and promotion spending to the first quarter. The BCH team has been and will continue to be focused on ROI for A&P, so the investments are not always linear with sales patterns. While we expect adjusted operating income to grow in the first quarter in the mid teens, with the impact of interest and shares noted a moment ago, we expect adjusted diluted EPS to only grow in the low single digits in the first quarter of calendar 2016 compared to 2015.

Turning to slide 25, you can see we are providing segment guidance as an approximate percentage of total net sales, with our consumer-facing businesses still expected to comprise approximately 70% of net sales in 2016. Slide 26 highlights our global OTC platform new product sales. We expect new product sales to be approximately 70% weighted towards OTC in 2016, including the launches of the store brand version of Flonase in the US and Bronchostop throughout the rest of the EU.

Looking at slide 27, given the large number of Rx products pending FDA approval, recent and expected new product launches, such as the generic version of Proair in mid December, and continued positive momentum in the Rx-based business, we expect this segment to drive greater than 20% of consolidated 2016 net sales.

In summary, there are clear action items to deliver results in 2016. We're excited about the deep pipeline of new product launches and remain focused on solid execution and operating efficiency as a basis for continued growth. We will continue to refine and improve our operating model across all segments of the business to drive consistent return. At the same time, we will continue to leverage our core competitive advantages and see the right opportunities for inorganic investments that sustain growth and meet our stringent investment criteria, while still maintaining our investment grade rating.

Now I'll turn the call back to Joe.

Joe Papa (CEO & Chairman):

Thanks, Judy. Let me provide a few comments on our 2016 and beyond. We see immense promise as we look forward into 2016. Slide 29 views our key growth drivers for 2016 and beyond.

What are they? They talk all about building our global branded consumer healthcare platform. It's all about delivering $1.2 billion of new products over the next three years. And it's about M&A, taking a disciplined M&A strategy and focusing on adjacent OTC categories of ophthalmics, pet health, diabetes, adult nutrition, and looking at geographic expansion as opportunities in M&A. And, finally, it's continuing to build moats around our durable business model, including the globalization of our supply chain in Ireland.

In summary, we believe that Perrigo Company is a very unique asset. It's a top five global OTC player with an industry-leading growth rate. We are building off a record year with expected 2016 top-line growth of

10% to 16% and expected 2016 bottom-line growth of 25% to 29%, with over 70% of our net sales coming from the consumer products.

I'll now open it up to Q&A, operator, so we'll take our first call.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Elliot Wilbur with Raymond James.

Elliot Wilbur (Analyst - Raymond James):

Thanks. Good morning. I'm sure there will be a lot of questions on BCH. Maybe I'll actually start off and ask a question on the Rx generics segment. Judy, if you have the numbers available, could you give us a sense of what the full-year contribution was from new products versus decline in the base? I'm just looking at fourth quarter and it looks like there's about a 10% rate of decline in the base, which maybe seems a little bit higher than average, which leads me into part of my question here.

It just seems like at the margin certain segments within the generic area are seeing more pricing erosion, particularly dermatologics. I'm just wondering how you are thinking about potential head winds there in terms of accelerated pricing erosion in 2016. Obviously it's been a very strong tail wind the past couple of years.

Thanks.

Joe Papa (CEO & Chairman):

Judy, why don't you take the first part of it and I'll take that latter part.

Judy Brown (CFO):

Were you to go through and accumulate the comments we made each quarter throughout calendar 2015 on new products and Rx, new products contributed approximately $121 million over the course of those four quarters. And pricing-wise, we did see some pressure, give or take, in the total portfolio over the course of the year approximately 1%.

Joe Papa (CEO & Chairman):

And the latter part of your question, it really talks about the pricing dynamics and what we're thinking about and looking at for the future. And I'd say the following. Are there some increment product competition that we're going to face? The answer is yes.

However, what we've tried to do at Perrigo Group is not just stay focused only on dermatology. As you know, we've moved into what I refer to as extended topicals. So those are things beyond just certainly dermatology -- but respiratory, nasal, ophthalmic.

And with those product categories -- for example, at the end of the year, we'll launch our ProAir product in terms of a meter-dosed inhaler for respiratory -- those are the things that are giving us great strength in our Rx category. And, as we believe, that will give us a very high gross margin and operating margin, certainly as we think about the 2016 and beyond. So, we like what we see in terms of our ability to launch these new products and what they mean for gross margins and operating margins.

Operator:

Louise Chen with Guggenheim.

Louise Chen (Analyst - Guggenheim Securities LLC):

Hi, thanks for taking my question. I wanted to dig into a little bit more on BCH. And curious on two things here. Number one, as you mentioned, you did give guidance in January. So, curious, when did you actually see a change relative to your expectations on the top end of the range?

And then, secondly, just curious how much, if any, of the lower sales in Omega than you had originally forecasted were a result of Perrigo spending more time defending itself against the hostile last year or if it was something else. Thank you.

Joe Papa (CEO & Chairman):

Okay. The first question, on the question of when did we become aware of some of the challenges with the BCH business, it was really in the middle of January as we were consolidating our business during the close. It really wasn't until the middle part of January that we became aware of some of the issues specifically with the BCH business.

Now, there is clearly, you get some revenue numbers added to it, but you don't get to the full bottom line, the consolidated income, as a Company until we close out our full auditing process and look at everything. So, it was really very late in the January time frame as we looked at the full consolidated part of it.

The second part, with branded consumer healthcare and it was relative to the Mylan question, I think, if I recall?

Louise Chen (Analyst - Guggenheim Securities LLC):

Yes. That's correct.

Joe Papa (CEO & Chairman):

There's no doubt that the events that occurred when we closed the Omega, or branded consumer healthcare, transaction on March 30 of 2015, and followed by a hostile attempt at a takeover starting around April 8. Did that cause some challenges for us as we focused on the business? Yes, it did. Clearly you see, though, through that time period the latter half of 2015 we had strong business performance in our Rx team. We had strong business performance in our OTC or store brand business.

As we are trying to put resources towards branded consumer healthcare, there were some challenges. And, as I said, it's a personal disappointment but clearly something we know we can fix, and we're going to take every effort we can go forward and put the initiatives that I outlined before by improving the sales and operations planning, improving the financial planning and analysis, making the globalized supply chain -- things that we know how to do because they fit right into what Perrigo does really well.

We'll take that on and get that focused and get that righted. But make no mistake, we still believe this is a great opportunity for us. It was an opportunity to move our business from competing in 6 countries around the world to 39 countries. So, we are very excited about what that means for our future and continue to be very excited about the Omega business.

Operator:

Mark Goodman with UBS.

Mark Goodman (Analyst - UBS):

Good morning. You went through some of the changes that you're going to do with the Omega business. They all seem like blocking and tackling issues, things that we'd expected you to do from day one. Why not take these actions earlier? Was this basically, we bought a company, it was functioning well, let's not fix it, everything is operating well, and then all of a sudden it just started to slow? Or maybe you can give us a flavor for that.

And I'm sorry, I have a second question, which is the Rx sales guidance seems like $1.2 billion-ish or something. You had guided for a higher number than that before. Now you've made some recent acquisitions. So, I'm curious what's changed to offset the acquisitions such that the guidance changed so much in that business? Thanks.

Joe Papa (CEO & Chairman):

Okay, let's start out on the first part of your question, branded consumer healthcare, a question of the timing of any changes. I think you said it well. We acquired what we thought is clearly a great business and we continue to believe it is a great business. As we found, though, there are some things that happened. It's a private company and some things in private companies we think we can improve on, basically, as we think about the Perrigo process that we go through, whether it be the sales forecasting, the supply chain integration -- on all the things that we do really well -- the financial planning and analysis. All those things are process things that we can do better.

And clearly, that is why, when I made my comments, it was partially on the people side, partially on the process side, and clearly something on the product side. For example, there are some products that just do not meet our return of investment capital hurdles and we're going to make some decisions about those particular products.

Could we have tried to do this earlier? I'd say that the original business performance was very strong. We felt it was moving in the right direction. I still believe it's going to move in the right direction, but I do think there are some things that we can improve on. And that's really the purpose of my comments and certainly the direct involvement that I plan to take over the next 6 to 12 months.

Judy Brown (CFO):

On the revenue growth, Mark, maybe I misinterpreted your question, because when we announced the two acquisitions near the end of 2015, with respect to Rx, we said we anticipated they would contribute approximately $150 million of revenue in the course of 2016. That still stands. And with the organic growth that we still plan, you asked whether we're going to grow more than 20%, and that still is the case. So, we are targeting growth for the segment well ahead of 20% in total. Even with the inclusion of the $150 million from acquisitions, there is still organic growth planned in the Rx portfolio.

Joe Papa (CEO & Chairman):

I think, Mark, you might have misunderstood Judy's comment because Judy made the comment that the Rx portfolio will represent --.

Judy Brown (CFO):

Will represent 20% of consolidated, not net sales. Not downgrading their growth rate.

Operator:

Your next question is going to come from the line of David Risinger with Morgan Stanley .

David Risinger (Analyst - Morgan Stanley):

Yes, thank you. My question is related to branded consumer. Could you just talk about the management changes there and the leadership changes, and just explain how that structure is evolving, and whether the leadership that was running the business a few months ago is still in place or how that has been altered? Thank you.

Joe Papa (CEO & Chairman):

Sure, David. The people side of our changes are really a couple of different factors. Number one, the management of the Omega business, or branded consumer healthcare, was led by an executive committee of three individuals. Two of those three individuals are still with us right now.

However, we are going to expand the size of that executive committee to a larger executive committee. One of the individuals has departed from the company. We're going to expand the size of the executive committee to just make sure we have more inputs into the process.

As I said, in addition, we'll have John Hendrickson, our Perrigo President of the business to go over there and help them with some of the issues and opportunities to improve the functional or process opportunities. A final comment on the people side of it would be simply related to some of the restructuring that we're planning to do in a couple of the key markets, specifically in country markets that we're planning on. That's really the full extent of it. And then the final comment is just simply on the people side, I clearly expect to devote some significant attention to this business over the next 6 to 12 months from a personal point of view for me, too.

David Risinger (Analyst - Morgan Stanley):

Thank you.

Operator:

Chris Schott with JPMorgan .

Chris Schott (Analyst - JPMorgan):

Great, thanks very much. On BCH, how long are you anticipating until these initiatives take hold and we should see improved growth trends? I'm just trying to get a handle on what the near-term outlook for BCH looks like. And just a second question on this, on margins for that division, as well. I know you talked about some quarterly spend dynamics, but just where should we think about the BCH margins for the year? And what's the longer-term range we should think about for margins for this business? Thanks very much.

Joe Papa (CEO & Chairman):

Judy, I'll take the first part of the question of how long some of this will take and then you can take that margin question. On the initiatives that we have in mind, I'd just, once again, remind everyone, it's all about people, processes, and products. Some of the people things, those can happen very quickly and are in place and happening as we speak. So people are underway.

There is some restructuring. With any restructuring, it takes a certain amount of time to do that. I would say the improvement on process is really by definition a longer time frame. As you put in a new sales and operation planning process, you put in a new financial planning and analysis process, as you integrate the supply chain, some of those things just take a little bit longer in terms of time frame.

Having said that, though, we continue to believe that from the product point of view, they are launching the Omega team, or branded consumer healthcare team, is launching a number of important products.

We do believe with the addition of the GSK products that I mentioned from the nicotine replacement therapy, we do think there's some very exciting opportunities for us in 2016. Judy -- that's probably on the product side -- on the margin side, can you talk about margin?

Judy Brown (CFO):

On the adjusted gross margin perspective, as we look at the course of the year, there's not a lot of change rolling off of 2015 as you think about modeling 2016. Adjusted gross margins within a reasonable band stay in the lower 50% zone.

Now, if you think about adjusted operating margin, the expansion of growth on the bottom line, that does evolve. I made the comments about the first half/second half dynamics for the Company. A portion of that is driven by investments in BCH ramping up and getting profitability returning to more of the high teens level over the course of the year.

So, if you're looking at modeling the first half of the year, you would see softer operating income, adjusted operating income in the first half and then growing and working to recover back to, as I said, adjusted operating margins at a higher level in the second half of the year. That's a dynamic of combination timing on advertising and promotion spend, and the restructuring activities that Joe mentioned earlier taking hold and getting to see some additional profitability in the back half of the year.

Operator:

Greg Gilbert with Deutsche Bank.

Gregg Gilbert (Analyst - Deutsche Bank):

Thanks. I'll keep it to one maybe philosophical question. Joe, to the extent there's a crisis of confidence here, hopefully a short-term one, after stiff arming Mylan and lowering your outlook and having significant structural issues with your latest deal, maybe you could talk about how aggressive the Company, or maybe, more approprietely, the Board, is prepared to be in allocating capital for buybacks as opposed to additional M&A. Of course, in parallel with you getting operations back on track. Thanks.

Joe Papa (CEO & Chairman):

I'm going to take your question into pieces, Greg. On the question of, is there some challenges we have with our branded consumer healthcare business, the answer is yes. And that's some of the things I mentioned, Judy mentioned. We're going to take that on. We feel absolutely confident we will overcome those challenges and clearly we still believe this is a great business opportunity for us.

As I said, it took us from competing in 6 countries around the world to 39. We think that expansion in geographic footprint is very important to us for the future. So, on that question, yes, there are some challenges that we're going to work our way through but it's nothing that we haven't experienced before.

The good news is that many of the things that need to get improved are things that we think Perrigo does very well in terms of our world-class approach to the supply chain, the world-class approach to what we plan to do with just our sales forecasting optimization. Remember, we manage somewhere around 20,000 SKUs from a sales and operations planning point of view, from forecasting. We believe that those things are things that we do very well. We'll put that into the Omega process and we think we'll have, once again, a world-class branded OTC business based on some of the improvements.

Make no mistake about it, some of the marketing activities that Omega has done have been absolutely delivering great returns. As we've taken over the GSK brand, we've shown accelerated growth in the nicotine franchise from where they were before. So, we think we're in good shape with that portion of the business in terms of the plan. But we do have some challenges and I don't want to mince words there.

On the rest of the business though, we're excited about it. If you think about what we've talked about as a business, in 2015, with revenue up 28%, operating income up 29% earnings per share up 21%, EBITDA now at somewhere around $1.5 billion, there's a lot of great things that happened with this business in terms of even just within OTC. It's a significant -- our store brand OTC business -- margin expansion. So, we're in good shape with our total business as we think about it, but I do take the comment that we've got some things to deal with on branded consumer healthcare.

On the question of the share repurchase or capital allocation, that's something that Judy mentioned and we'll continue to look at that. As you know, we did a share repurchase in the fourth quarter. As we think about share repurchase in the future, we'll continue to look at that as, Judy said, as there is available free cash flow for us to do that. So that's something we are contemplating.

I will make a comment, though, just to reflect or magnify what Judy said. We're going to look at that relative to not only the share repurchase, but also the other M&A opportunities that we have as a company.

Operator:

Our next question will come from the line of Linda Bolton with B. Riley.

Linda Bolton (Analyst - B. Riley):

Hi. Just first a small housekeeping thing. Judy, when you talked about new products in BCH, you said it was $65 million, including acquisitions. So, does the $400 million of new product sales for 2016 include acquisitions? Can you just clarify that?

And then, secondly, on a bigger picture, in terms of the restructuring and cost savings you had outlined when you were fighting the hostile takeover, my understanding was a lot of that was actually taking place in the US business and that you had a specific targeted amount of savings for 2016. Can you remind us what all that is? Is that getting lost in the shuffle or are you still pursuing those savings? And will you be reporting on how much of those restructuring savings you'll be getting each quarter as we progress through 2016 so we can monitor progress? Thanks.

Judy Brown (CFO):

Sure. This is a JB section. Let me first off comment on the BCH question, new products. You are spot on, that for the first time ever there was a mixture in that comment, $65 million of new products, which included Yokebe and GSK acquired products.

It's an anomaly here because we have an acquisition in a period where we don't have a comparable to last year. So the acquired products were approximately half of that $65 million and the new products that the BCH team deemed as new in their calendar year in the normal metrics that we would use here in the Company as launching something within the first 12 months, is the other half.

Going forward on a like-for-like basis, we will pull out acquired products from GSK and Yokebe until they hit the 12-month acquisition anniversary. And the $400 million in total Company products does not include those two.

But, you're right, that is a good call out, Linda, because we've rarely had an acquired company with new acquisition on top of it within that window. So, going forward, $400 million, no acquired products within that total.

Rolling back to the October 22 announcement and the savings that we expected as a Company to achieve overall, those are included in our 2016 plans still. You'll remember that a portion of that announcement related to structural cost savings within the Company, and for all intents and purposes those activities are complete. The migration of our global supply chain center of excellence to our corporate headquarters in Ireland is actively underway, as we speak.

We mentioned Art will be moving. Many people are building up their competencies and getting the business up and running in Ireland. Those savings are going to be reflected in our 2016 numbers. And we also made the comment that the sales process for our API factory in India, as well as our VMS business, are actively underway and expected to be closed in the not too distant future.

You can consider essentially the XLS, the implementation of streamlining of our operating structure is built in. We are not necessarily calling those out on a line by line basis. But, suffice it to say, we will keep you posted on the sales process for VMS, we'll keep you posted on our ongoing buildout within Ireland as more and more of our business is operated in our corporate headquarters directly with Europe. And we'll call out any incremental actions that take place over the course of the year within BCH, specifically restructuring initiatives and the dollars related to those.

Operator:

Douglas Tsao with Barclays.

Douglas Tsao (Analyst - Barclays Capital):

Hi, good morning, thanks for taking the questions. Maybe turning to the consumer healthcare business, Judy, if we look at the 45% guidance, percentage of sales for consumer healthcare relative to the consolidated revenue guidance for the Company, it implies consumer healthcare to be down a touch relative to this year. And given the progress we've seen in the last couple quarters, it's a little surprising to me. Just curious if we're interpreting that the right way.

Judy Brown (CFO):

I'm looking at my consumer healthcare segment-specific information and we definitely have consumer healthcare growing in 2016. We do generally break out revenues for you in total -- 45, 25, 20 -- but these are approximates. So, what I can tell you is that within our own breakdown, segment by segment, we see the consumer healthcare business continuing to grow, both on the sales and on the operating income line for the full year. Remember, those breakdowns, in order to give you a feel for how the business is progressing, the items presented on page 25, again, are approximates, just to give you the continued information that our consumer-facing business continues to generate approximately 7% of our expected sales.

Douglas Tsao (Analyst - Barclays Capital):

Okay, great, thank you very much. That's helpful clarity.

Joe Papa (CEO & Chairman):

But to be clear, the only thing I would add, I think what Judy said is exactly right, the only thing I'd add is that we continue to look at our business in terms of growing in the consumer-facing business in that 5% to 10% range. That's what our mind set continues to be as a company.

Operator:

Our next question will come from the line of Annabel Samimy with Stifel.

Annabel Samimy (Analyst - Stifel Nicolaus):

Hi, thanks for taking my question. I know there's been a lot of discussion about BCH. But within generics, even though it's at the highest level ever, the growth seemed to have slowed pretty meaningfully. You already talked about price erosion. I want to gauge your confidence about the new product introductions outside of the Entocort and Retin-A programs. And how do you feel about the base business How confident do you feel about the other product introductions within the group, as well as any competition on the horizon that could erode your product opportunities of the base business? Thanks.

Joe Papa (CEO & Chairman):

let me start with your first assumption. It is correct, we did expect the generic Rx business to slow down. The reason we expected it to slow down is because at the end of 2014, we launched a very significant new product. It was the AndroGel 1% or testosterone 1% gel. That was a very important launch for us and one which did incredibly well. We were the only company out there with a generic equivalent to the 1%. Therefore, these are all things we expected. We always knew the comp for the year over year was going to be significant for the fourth quarter, so all that has transpired exactly as what was stated.

I remind you that, as Judy was talking about, the opportunities in our Rx business, one of the things we mentioned was the opportunity to launch a generic equivalent of ProAir. That generic equivalent is, we think, a very exciting opportunity. To our knowledge, no one else has even challenged the patent. We've challenged the patent, we've prevailed, and we're at a point where we think it's a very exciting launch for us that will represent a significant upside to us in the later part of 2016. So, we're very comfortable with that.

As Judy has talked about in terms of as we think about the margin opportunities, both in the gross and operating line, we do see calendar year 2016 improving on both of the operating and the gross margins for that business, as we continue to show very significant growth even without the equivalent of the Entocort and the Retin-A generic.

Judy Brown (CFO):

Just to clarify, and this probably builds off of perhaps we created a little confusion when we heard Mark's question, too. Our plan for Rx reflects, excluding the acquired products, excluding the tretinoin family and the Entocort transaction, is still at the high end of our 8% to 12% growth guidance that we've provided in the past. So, any, quote, slowing in Q4 relative to that type of a range reflects the fact -- to Joe's point -- that Q4 2014 was the highest Q4 on record. Relatively, that quarter was outside of our stated 8% to 12% range, but we are at the high end of that range within our 2016 guidance plan for next year.

Annabel Samimy (Analyst - Stifel Nicolaus):

Okay, great, thanks for clarifying.

Operator:

Tim Chiang with BTIG.

Tim Chiang (Analyst - BTIG):

Hi, Joe. You talked a little bit, at least you highlighted, the over-the-counter Flonase product, the launch in 2016. Could you talk a little bit about what your expectations for the timing of the launch is, and how significant you think that product could be here in the States this year?

Joe Papa (CEO & Chairman):

Sure. It is currently at the FDA, so we have to await FDA's approval process. But do I believe that the Flonase product will happen sometime in the next 30 to 90 days? I think that that is a very reasonable assumption.

I obviously can't guarantee anything. It's up to the FDA to make their decision. But I do think somewhere in that next 30 to 90 days we'll see introduction of a store brand private label of Flonase.

On the question of the opportunity, we think Flonase is doing very well so far in terms of the brand. You see a lot of advertising for it, a lot of promotion with it. They're doing very well with it. Our expectation is that there is a significant store brand opportunity. Ballpark, it's on track for $300 million for Flonase and rising as a brand. So we think the store brand opportunity is significant.

Tim Chiang (Analyst - BTIG):

Okay. Great, thanks.

Operator:

Jami Rubin with Goldman Sachs .

Jami Rubin (Analyst - Goldman Sachs):

Thank you. Joe, Perrigo's business model has become increasingly dependent on M&A for growth. And even you are spending more of your time with external business development activities. Does this experience with Omega give you pause on M&A generally? Will it cause you to reassess your desire to expand globally? Is this a European thing?

How does this experience, how does this change your priorities in terms of M&A? And should we continue for you to do M&A over the course of the year, in terms of size of deals, types of deals, does it even make sense for Perrigo to continue along that path just given the setbacks with Omega? Thanks very much.

Joe Papa (CEO & Chairman):

Sure. Thank you for the question, Jami. I would say a couple comments. Number one, I've had the pleasure of working with the Perrigo team for almost ten years now, and I would say that through those ten years, we have done 29, 30 different transactions. And do I accept that there's some challenges that we have to work with on the Omega business? Yes, absolutely. But that's nothing different than every other acquisition we've been a part of.

Some go faster, some go a little slower. The European market is one right now that is a little bit slower in terms of -- we don't blame it on it, but certainly we knew the FX for the year was coming down. There's a lot of things that are moving on it. But it makes me still believe, though, that this is a phenomenal future opportunity for us from the point of view of giving us this geographic expansion opportunity, allowing us to move from 6 countries where we compete before Omega to 39 countries. We are still very excited about what Omega will bring to us.

On the question, or part of your hypothesis, I want to make sure I'm very clear -- we still believe that the Perrigo organic growth rate, without any acquisitions, still in that 5% to 10% range. And I know you know many different companies. I think that you'll find that a 5% to 10% growth rate in a business that 70% of our sales are in the consumer side is a very good consumer-facing business, because you don't find many that are growing at that rate. So, we feel very optimistic about our organic growth rate and the consumer-facing part of our business.

Do I still believe, though, there's a chance to do a growth rate that is about half of the business in organic growth rate, and then half of the growth being inorganic? I still believe that makes a lot of sense for us because there are so many more things we could put on the back of our truck at Perrigo today, going to these large retailers and/or in Europe that we're going to continue to look at.

And I said before to you, I think that for us we can continue to look to expand in animal health, we can continue to look to expand in ophthalmics, pet care, diabetes, adult nutrition. And we do think there's some additional geographic expansion, especially in Europe where we think we can bolt on some additional products to our current Omega infrastructure.

So, I don't think it changes my view at all. We think we've still got a tremendous opportunity with Omega and, importantly, good opportunities with M&A. Thank you.

Operator:

Jason Gerberry, Leerink Partners.

Jason Gerberry (Analyst - Leerink):

Hey, good morning. Thanks for taking my question. Apologies if I missed this, but can you provide a little more explanation of what is happening at the tax line, 14% on the quarter, at least the guidance has14%, was a couple hundred basis points lower than we were forecasting. I just wanted to get your views in terms of the sustainability of that as a lower tax rate. Thanks.

Judy Brown (CFO):

The quarter was slightly below our own expectations. We had been anticipating a rate more in the 16% zone in the quarter just ended December. There was a mix shift. We're not where we expected to be with earnings before tax in Europe where our jurisdictional rates are relatively higher and, therefore, you see the overall rate lower in Q4.

Looking forward, though, the approximately 14% adjusted effective tax rate that we're targeting for the full year is a component of jurisdictional mix of our businesses, as well as the programs put in place that we announced on October 22, 2015, with respect to capturing better value and optimizing our tax line through the global supply chain initiatives that have enormous operational activity behind them at the moment. Those will contribute to an approximately 400 basis point improvement in our tax rate versus our previous run rate tax rate in the past.

Jason Gerberry (Analyst - Leerink):

Should we be thinking about 2017, 2018, reverting back to the historical 17 percentage rate?

Judy Brown (CFO):

No. Think of it this way. We were, post Elan, talking about a rate in the high teens. So 17%, 18%. With the implementation of the global supply chain optimization, we said we should now be targeting more like a 14% to 15% run rate, all other things equal.

I can never comment on jurisdictional mix changes if we do acquisitions, or jurisdictional mix changes with a swing one country versus another in terms of new product timing, but the new run rate should be more mid teens versus high teens because of these global supply chain initiatives. Those initiatives are not one off. It is changing the way we do business.

It's changing our operating model to truly make our global supply chain universal. So, all of our operations being run from that one center of excellence. It doesn't revert back. It's not like a restructuring plan where you lose the year-over-year basis. It really is a change in the way the Company operates and, therefore, you have a sustainable base to build off of for the future.

Operator:

David Steinberg with Jefferies.

David Steinberg (Analyst - Jefferies):

Thanks. Ever since you bought Elan, there's been some discussion about whether the Tysabri royalty stream fits for the long-term plans of the Company. I'm just curious what your current thinking is on the subject. Are you intending on keeping it at this point? Are you looking to divest it? If so, would you only divest it as a whole entity or in pieces? And if you are looking to divest it, what interest is there in the marketplace, particularly given the looming competition down the road from Roche? Thanks.

Joe Papa (CEO & Chairman):

Sure. Let me probably restate a couple things and then just go forward. We, as we look at Tysabri, still believe it's a great product. We believe we've got a great partner. We believe it's a product that's very important. And the category of highly effective drugs is even going to be more important for patients with MS. We like where we sit with it.

We also believe it's got a very long life. Because of the fact that it is a biologic with a REMS program, we think it will be very difficult to genericize. Having said that, I would say that we will continue to assess what's the right thing to do with this product.

I would only say that right now, as we think about this from a point of view of strategy, as we think about any potential to monetize part or all of it, we can do part or we could do all of it -- to answer one of your questions. I would say, though, that we are only going to do something like that if it's an association with what we think is a significant transaction. We don't want to, obviously, just put it on our balance sheet, cash on our balance sheet. I think if we do something, look to us to do that relative to some other transaction as a Company.

But we sit here today, we clearly are aware of the Roche product but we think we've got a great partner in Biogen. And, importantly, we think the highly effective category of MS drugs are only going to continue to expand as, importantly, patients look for better and better therapies in MS. So, we'll make decisions as we get to that point as it would relate to other strategic alternatives for us. Operator, next question.

Operator:

David Norris with Wells Fargo Securities.

David Norris (Analyst - Wells Fargo Securities):

Good morning, Joe, good morning, Judy. Just building on a couple questions that others have asked, I'm going to ask it a little bit different way. I understand that M&A is still part of the strategy. And before GPS was on every phone and every car, whenever I go on a road trip and know where I'm going and then ended up a little bit off, my wife would say -- pull over -- and I sometimes would decide to keep driving. And it's always better to pull over and get your bearings.

How are you going to address shareholders that say over the next few days, I'm sure -- why not put a moratorium on deals for the next little bit? Buybacks and debt paydown is pretty straightforward. No risk to those. And with all the management changes, comp changes, why hoist more deals on a management team that is in a transition? Why not just wait?

Is the environment for M&A so uniquely good right now that you don't want to miss things? Maybe if you can address why not just wait for a year or two, or until you right things, before doing any further M&A?

Joe Papa (CEO & Chairman):

David, a couple comments. Number one, I start with, we believe that the strength of our business in the consumer healthcare side of our business and the Rx side of our business are still very strong businesses. And we think that there are still opportunities there to look to, as I said before, put one more item on the truck that's going from Perrigo today to one of our large retailers. So, we're going to keep looking at those opportunities.

Do I take the point that you're suggesting, though, that we need to continue to improve the branded consumer healthcare business and put a focus on that? The answer is absolutely yes. There's no mistake about that. Some of the things we're working on.

But I want to make sure my message comes across. We think the branded consumer healthcare business is a great business. They have done some great things with new product launches. But there are some things we think we can help them to improve as we bring some of the Perrigo processes into their business. Yes, we think we're going to do that and we will spend the time to do that.

But we've got an organization that has certainly a lot of opportunities to think about additional M&A and we'll think about it. I don't want to suggest to anybody, though, that M&A, we're going to do it just no matter what the cost. We're going to be smart about it and disciplined about it, just like we have been in the past. Therefore, we have an alternative. We have a share repurchase opportunity. We're going to return the trade on investment for doing A or doing B.

So, I think the essence of your question is, are we going to look at it strategically and trade it off versus share repurchase. Yes, we will do that, and I think Judy tried to capture that in her comments. But there may be some opportunities that we think, from a timing point of view or a strategy point of view, may be very important to us, and we're going to look at those for the next 12 months. We don't think putting an absolute moratorium makes sense. It would just simply be smart and disciplined, as we always have been.

David Norris (Analyst - Wells Fargo Securities):

Thank you.

Operator:

Sumant Kulkarni with Bank of America Merrill Lynch.

Sumant Kulkarni (Analyst - BoA Merrill Lynch):

Good morning, thanks for taking my question. This is one of the strategy questions. Is it fair to characterize the underperformance in branded consumer health as a Perrigo or Omega specific issue? Or is there something specific that is fundamentally new that you have learned about managing the competitive dynamics in European branded consumer health market, given that it's a very different ball game relative to the US store brands where the Company's traditional expertise lies?

Joe Papa (CEO & Chairman):

No, I don't think -- the summery comment is, we clearly still believe the Omega business is a very strong business. As we said at the onset, the team that was running it is still the team that is currently running it, with the exception of one individual. Having said that, we think there's some things we can strengthen, as I mentioned, in terms of a process point of view. We clearly believe there are things we can improve on relative to sales forecasting, sales operation planning, the financial planning analysis, supply chain.

Those are things that we already have in our minds. We just simply want to accelerate some of that as we get closer to the business and look at it, and also see some of the challenges that we saw in the fourth quarter. So it's things that we already know we were going to do. I think what I'm really saying is we're just going to accelerate some of these things faster based on at least what we think are opportunities to improve. But I don't think there are any other structural or strategy issues other than the ones I've outlined for us to improve on.

Obviously the only other comment I can say in Europe, it's a known fact, that obviously, the foreign exchange is different than when we acquired it. But that is something we all face as a Company.

Operator:

Our final question will come from Elliot Wilbur with Raymond James.

Elliot Wilbur (Analyst - Raymond James):

Thanks. I just wanted to come back to Judy and ask a specific question about gross margin. Obviously you don't provide guidance on gross margin parameters anymore, but specifically with respect to consumer healthcare, we saw a very strong ramp in gross margin performance over the last couple of quarters, and then pretty significant step down this period. Obviously there's a lot of things that go into that in terms of mix and whatnot. I think you closed the year around 34.5%. But how do we think about, going forward, whether the 36%-plus rate we saw in the June-September quarters, are those high-end targets and not really new baseline numbers? Give a sense of what you think the baseline is at this point.

And as a follow up to that, another gross margin question on the generic business. How are the acquisitions of tretinoin and budesonide going to impact the gross margin line?

Judy Brown (CFO):

All right, I'll take the lead off with consumer healthcare. You're right, we stepped back from giving very granular line-by-line segment margin analytics in our guidance. But suffice it to say, the consumer healthcare team, you have to give props to Jeff Needham and his entire organization. They have done a yeoman's job in years when there have not been the enormous switch products coming in their portfolio. But blocking and tackling, bringing dozens of new products to the market, positioning of those products well, fighting the fight in a world of more challenging pricing dynamics out in today's market, taking advantage of good commodity buying, and taking advantage, frankly, of the comments -- Joe's talked about the operating model of Perrigo and our lean manufacturing efficiencies that we continue to get over the years. That team has capitalized on that.

You have seen the margin expansion. If I think about 2015, we've gotten 37% gross margin, almost 38%. Yes, it was, quote, down to only 35% in the fourth quarter but we finished the year at just under 36% adjusted gross margin, which in a year without one giant blockbuster launch to point to I think is a phenomenal achievement.

And as they took the margins out next year and thought about their planning, they are still running in the low to mid 30%s in their adjusted gross margin -- it varies quarter by quarter with timing of product -- and are also looking at working to maintain the types of adjusted operating margins you saw over the course of 2015, as well. Remember, in my comments around how to think about the year, the balance of the year is always a factor of timing on new products, investments that are coming through down below the line within selling in terms of promotional support, et cetera.

That's why I said second half of the year is slightly heavier because of the fact that you've got more launches in the back half. But you are still looking at the team working at maintaining those, I'll call it, 32% to 35% zone, that low 30% adjusted gross margin and very high teens around 20% operating margin. Again, thinking off that baseline of 2015 into 2016.

Joe Papa (CEO & Chairman):

And the rest of the question on the Rx side, if you think about where we were from a gross margin in 2014, slightly below 60%, as you think about where we are with gross margin in 2015 full year, slightly above 60%, almost 61%. As we think about the future, there's no doubt that the new products that we plan to launch, whether it will be the ProAir product and also the Entocort, the tretinoin products that are now part of our portfolio, will help us from a gross margin point of view as we think about our 2016 Rx gross margin. So, we continue to see some upside from where we are currently on the Rx gross margins as a result of new products and also the acquisition products.

Operator, that concludes the call. I just want to make a couple of comments. First of all, thank you very much for your interest in the Perrigo Company. As I think about the business and think about our guidance for the year, I remind you that we're looking at a revenue growth of 10% to 16%, we think dramatically driven by this concept of a durable business model.

We believe that the EPS will grow in the 25% to 29% in 2016. We think that the improvement that we've shown in our store brand business is very important to us, if you think about how much the operating margin of the consumer healthcare moved from 2014 to 2015. And as we think about 2016, we think there are still some slight upside for the operating margin in that business.

So, we're excited about it. We clearly know we've got some things to get done with our branded consumer healthcare. We're going to put some focus on that. But, importantly, we think that is still a great business for us over the long term as we think about the future of our business and continuing to grow our business, both organically and through M&A.

Thank you, everyone, for your attention today. Have a great day.

Operator:

Thank you for dialing in for today's Perrigo calendar year 2015 fourth-quarter earnings results conference call. You may now disconnect.