

Allergan Wants to Get You back in Shape and Make Money Out of It.. : Allergan to Acquire Zeltiq Aesthetics for \$2.5bn

Allergan PLC (NYSE: AGN) - market cap as of 16/02/2017: \$82.86bn

Zeltiq Aesthetics Inc. (NASDAQ: ZLTQ) - market cap as of 16/02/2017: \$2.23bn

Introduction

On February 13, 2017, the biopharmaceutical giant Allergan PLC announced that it entered into an agreement to purchase the medical technology company Zeltiq Aesthetics Inc. in an all-cash transaction that is valued at \$2.47bn (\$56.50 per Zeltiq share).

Allergan's medical aesthetics portfolio will greatly benefit from Zeltiq's "CoolSculpting System", which naturally destroys unwanted fat cells using a best-in-class cooling technology. This will help Allergan amplify their customer service, boost commercial potential and satisfy the unique demands of patients across the globe.

About Allergan PLC

Allergan PLC was established in 2015 through the acquisition of Allergan Inc. by Actavis PLC. The firm is currently headquartered in Dublin and conducts operations in roughly 100 countries. Close collaboration with physicians, healthcare providers and patients helps the company offer services and expertise in a variety of areas. These include central nervous system, eye care, medical aesthetics and dermatology, gastroenterology, women's health, urology and anti-infective therapeutics.

Allergan is widely known for their distinctive development pipeline, which encompasses more than 70 medium and long-run projects. Allergan also maintains 40 manufacturing facilities and 27 research and development centres worldwide.

The company generated net revenues of \$3.6bn in the third quarter 2016. In FY2015, Allergan reported \$15.07bn of total revenues, adjusted EBITDA of \$7.19bn and adjusted EBIT of \$6.88bn.

About Zeltiq Aesthetics Inc.

Zeltiq Aesthetics Inc. was founded in 2005 by Mitch Levinson and specializes in developing an innovative cooling technology platform - the "CoolSculpting System" – which was recently nominated as the #1 non-invasive fat reduction procedure.

According to the company's statistics, 29 million individuals in the United States are interested in using this cutting-edge technology, which is already available in over 70 countries worldwide. Additionally, Zeltiq Aesthetics reports 150.000 monthly website visits, 35% of whom request additional information regarding the "CoolSculpting System".

What is CoolSculpting?

CoolSculpting is a non-surgical, clinically proven procedure that selectively reduces unwanted fat using a patented cooling technology. CoolSculpting works by gently cooling targeted fat cells in the body to induce a natural, controlled elimination of fat cells without affecting surrounding tissue. The procedure is available through a network of dermatologists, plastic surgeons and leading aesthetic specialists that offer the procedure. Market research indicates up to a 95 percent customer satisfaction rate with the CoolSculpting procedure and costs typically \$2,000 to \$4,000 per patient.

In the first 3 quarters of 2016 Zeltiq reported 95.16m in revenues, a 55% increase with respect to the same period the previous year. Net profit over the first quarters amounted to 5.19bn.

Allergan M&A wave overview

In October 2015, Pfizer and Allergan announced a \$160bn merger which would have dramatically changed the industry. However, the deal did not close as synergies expected from tax savings dropped to zero after the US government introduced new rules on tax inversion.

Despite the termination of the abovementioned deal, Allergan has still been quite active in M&As, undertaking several acquisitions and divestitures to expand its product portfolio and geographical scope.

Being particularly focused on the development of innovative medical needs, Allergan is currently in a very solid position with a strong pipeline of products in mid-late stage of development in several sectors. To further strengthen its R&D efforts, the company has lately made several small and medium purchases of firms that are developing potential ground-breaking drugs and treatments. These include the acquisition of Topokine Therapeutics in April 2016 for \$85m to improve Allergan's medical and facial aesthetics product pipeline. Eye care segment was boosted by the acquisition of ForSight Vision and RetroSense Therapeutics in August-September 2016 for \$95m and \$60m, respectively.

In September 2016, Allergan agreed to acquire Vitae Pharmaceuticals for \$639m to "add strength and depth to Allergan's dermatology franchise", according to Allergan's CEO. The company has made two more acquisitions in September bolstering its liver diseases therapies portfolio: Tobira Therapeutics & Akarna Therapeutics for \$1.7bn and \$50m, respectively.

Allergan's first deal in 2017 has been the acquisition of LifeCell for \$2.9bn. The combination of LifeCell's innovative regenerative medicines business and Allergan's leading portfolio of medical aesthetics, breast implants and tissue expanders, will create a world-class aesthetic and regenerative medicine business.

Deal rationale

Allergan has been among the most active pharma companies in recent years in portfolio management, and the company's strategy has always focused on supporting its portfolio "winners".

According to the latest financial results for 2016, Allergan's key segments based on revenues are eye care and medical aesthetics with 28% and 24%, respectively, of the total revenues. Indeed, looking at the firm's most recent M&A deals it can be seen that the latest acquisitions were aimed at the improvement of the pipeline in the mentioned segments.

After the acquisition of LifeCell, the addition of Zeltiq's portfolio will be a very strong complementary fit to Allergan's existing medical aesthetics business. The field of aesthetic medicine is becoming increasingly attractive among pharmaceutical companies as the services provided are not covered by the healthcare system, which implies cash-pay by the consumers themselves. That means drug makers do not have to deal with cash-strapped healthcare systems, which are trying to push down the prices of medicines after years of above-inflation increases.

Zeltiq expects to generate \$420m in revenues in 2017 and Allergan said the increases the company's presence in the cash-pay business at a time when there is an increasing pressure on drug prices. Moreover, by adding Zeltiq's best-in-class body contouring CoolSculpting System to Allergan's best-in-class facial aesthetics, plastic surgery and regenerative medicine offerings, a world-class aesthetics business is being created.

Deal structure

As previously stated, Allergan will purchase the medical technology company Zeltiq Aesthetics Inc. in an all-cash transaction that is valued at \$2.47bn. The offer of \$56.50 a share represents a 14% premium to Zeltiq's closing price on Friday, February 10 (\$49.40).

It is very difficult to comment on the offer price given the niche and highly innovative market in which Zeltiq operates, and the company's impressive revenues' growth rates YoY.

The table below shows Zeltiq's multiples relative to the share price on Friday, February 17 (\$55.67), which is very close to the offer price. Indeed, the company's multiples are considerably higher than those of similar young companies operating in the medical aesthetic sector. That said, it should be noted that the firm's P/(Exp. Sales in 2017) is 5.3 – more reasonable than

the current multiple of 8.8x. Furthermore, according to several analysts, Zeltiq is the company which is best positioned within the global body contouring market, whose total value has been at approximated at \$4bn.

		Valuation					
	Company name	Price	Earnings per share	P/E ratio	Price-to-book ratio	Price-to-sales ratio	Mkt Cap
ZLTQ	Zeltiq Aesthetics...	55.67	0.74	75.27	17.57	8.72	2.22B
CYNO	Cynosure, Inc.	66.25	0.65	101.85	3.41	3.63	1.59B
CUTR	Cutera, Inc.	20.85	0.17	125.00	4.56	2.36	280.23M
SSKN	STRATA Skin Scien...	0.560	-0.30		0.35	0.31	6.36M
SIEN	Sientra Inc	9.05	-3.34		1.36	4.39	169.21M
MDXG	MiMedx Group Inc	8.29	0.18	46.81	8.22	4.84	910.07M
CRXM	Taxus Cardium Pha...	0.255	-0.34				3.10M
AVMY	Avita Medical Ltd...	1.78					59.89M
ELOS	Syneron Medical Ltd.	9.90	0.09	115.60	1.66	1.23	345.38M
MSON	Misonix, Inc.	9.75	-0.17		2.98	3.62	90.71M
NEOT	Neothetics Inc	1.60	-1.49		0.85		24.08M

Source: Google Finance

According to the firm's press release, the deal is expected to close in the second half of 2017.

Market reaction

After the announcement of the deal, Zeltiq stock hit an all-time high. Allergan stock closed up a fraction, and it rose a further 0.73% on the next day, to \$248.57.

Based on a simple event study, the market reaction to the information that fled into the market can be analyzed through the changes in abnormal return, which is the excess return above the normal return that could have been generated in the absence of the event. The results show that the cumulative abnormal return (CAR) for Allergan was 6.0% on the event day – February 13 (and it was significant at 5%). Positive CAR persisted for the next 3 days still being significant.

For Zeltiq the CAR generated on the event day was 20.2% (significant at 5%) with further decrease in the next 3 days. The positive abnormal returns show that the market is welcoming the upcoming deal.

Advisors

Moelis & Co is Allergan's financial adviser, while Guggenheim Securities is Zeltiq's financial adviser.

