

Allergan plc  
Form 10-Q  
August 03, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from                      to

Commission File Number	Exact name of registrant as specified in its charter, principal office and address and telephone number	State of incorporation or organization	I.R.S. Employer Identification No.
001-36867	Allergan plc  Clonsaugh Business and Technology Park  Coolock, Dublin, D17 E400, Ireland  (862) 261-7000	Ireland	98-1114402
001-36887	Warner Chilcott Limited	Bermuda	98-0496358

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22 Victoria Street  
Hamilton HM 12  
Bermuda  
(441) 295-2244

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Allergan plc	YES	NO
Warner Chilcott Limited	YES	NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Allergan plc	YES	NO
Warner Chilcott Limited	YES	NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Allergan plc	<input type="checkbox"/> Large accelerated filer <input type="checkbox"/> Non-accelerated filer (Do not check if a smaller reporting company) <input type="checkbox"/> Emerging growth company	<input type="checkbox"/> Accelerated filer <input type="checkbox"/> Smaller reporting company
Warner Chilcott Limited	<input type="checkbox"/> Large accelerated filer <input type="checkbox"/> Non-accelerated filer (Do not check if a smaller reporting company) <input type="checkbox"/> Emerging growth company	<input type="checkbox"/> Accelerated filer <input type="checkbox"/> Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Allergan plc	YES	NO
Warner Chilcott Limited	YES	NO

Number of shares of Allergan plc's Ordinary Shares outstanding on July 30, 2018: 339,444,422. There is no trading market for securities of Warner Chilcott Limited, all of which are indirectly wholly owned by Allergan plc.

This Quarterly Report on Form 10-Q is a combined report being filed separately by two different registrants: Allergan plc and Warner Chilcott Limited. Warner Chilcott Limited is an indirect wholly-owned subsidiary of Allergan plc. The information in this Quarterly Report on Form 10-Q is equally applicable to Allergan plc and Warner Chilcott Limited, except where otherwise indicated. Warner Chilcott Limited meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and, to the extent applicable, is therefore filing this form with a reduced disclosure format.

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## PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS  
ALLERGAN PLC

## CONSOLIDATED BALANCE SHEETS

(Unaudited; in millions, except par value)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,674.7	\$ 1,817.2
Marketable securities	21.5	4,632.1
Accounts receivable, net	2,760.8	2,899.0
Inventories	922.5	904.5
Prepaid expenses and other current assets	724.2	1,123.9
Total current assets	6,103.7	11,376.7
Property, plant and equipment, net	1,761.4	1,785.4
Investments and other assets	297.9	267.9
Non current assets held for sale	180.4	81.6
Deferred tax assets	899.9	319.1
Product rights and other intangibles	49,928.3	54,648.3
Goodwill	49,687.2	49,862.9
Total assets	\$108,858.8	\$ 118,341.9
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$4,683.8	\$ 5,541.4
Income taxes payable	93.0	74.9
Current portion of long-term debt and capital leases	1,348.5	4,231.8
Total current liabilities	6,125.3	9,848.1
Long-term debt and capital leases	24,002.0	25,843.5
Other long-term liabilities	753.4	886.9
Other taxes payable	1,576.6	1,573.9
Deferred tax liabilities	5,137.5	6,352.4
Total liabilities	37,594.8	44,504.8
Commitments and contingencies (Refer to Note 19)		
Equity:		
Preferred shares, \$0.0001 par value per share, zero and 5.1 million shares authorized, issued and outstanding, respectively	\$-	\$ 4,929.7
Ordinary shares; \$0.0001 par value per share; 1,000.0 million shares authorized, 339.3 million and 330.2 million shares issued and outstanding, respectively	-	-
Additional paid-in capital	57,567.7	54,013.5
Retained earnings	12,082.9	12,957.2

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Accumulated other comprehensive income	1,592.9	1,920.7
Total shareholders' equity	71,243.5	73,821.1
Noncontrolling interest	20.5	16.0
Total equity	71,264.0	73,837.1
Total liabilities and equity	\$ 108,858.8	\$ 118,341.9

See accompanying Notes to the Consolidated Financial Statements.

## ALLERGAN PLC

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	\$4,124.2	\$4,007.4	\$7,796.3	\$7,580.3
Operating expenses:				
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	481.8	550.2	1,004.6	1,000.6
Research and development	689.2	489.4	1,163.9	1,249.3
Selling and marketing	853.4	935.2	1,653.4	1,804.3
General and administrative	334.1	459.8	630.0	775.9
Amortization	1,697.1	1,757.9	3,394.7	3,493.9
In-process research and development impairments	276.0	703.3	798.0	1,043.3
Asset sales and impairments, net	259.6	14.0	272.7	21.4
Total operating expenses	4,591.2	4,909.8	8,917.3	9,388.7
Operating (loss)	(467.0 )	(902.4 )	(1,121.0 )	(1,808.4 )
Interest income	6.3	16.6	23.6	41.9
Interest (expense)	(230.0 )	(277.4 )	(480.6 )	(567.1 )
Other income / (expense), net	215.4	(133.5 )	136.6	(2,056.3 )
Total other (expense), net	(8.3 )	(394.3 )	(320.4 )	(2,581.5 )
(Loss) before income taxes and noncontrolling interest	(475.3 )	(1,296.7 )	(1,441.4 )	(4,389.9 )
(Benefit) for income taxes	(5.2 )	(581.2 )	(687.4 )	(1,113.3 )
Net (loss) from continuing operations, net of tax	(470.1 )	(715.5 )	(754.0 )	(3,276.6 )
(Loss) from discontinued operations, net of tax	-	(8.4 )	-	(11.5 )
Net (loss)	(470.1 )	(723.9 )	(754.0 )	(3,288.1 )
(Income) attributable to noncontrolling interest	(2.4 )	(2.0 )	(4.6 )	(3.0 )
Net (loss) attributable to shareholders	(472.5 )	(725.9 )	(758.6 )	(3,291.1 )
Dividends on preferred shares	-	69.6	46.4	139.2
Net (loss) attributable to ordinary shareholders	\$(472.5 )	\$(795.5 )	\$(805.0 )	\$(3,430.3 )
(Loss) per share attributable to ordinary shareholders - basic:				
Continuing operations	\$(1.39 )	\$(2.35 )	\$(2.39 )	\$(10.20 )
Discontinued operations	-	(0.02 )	-	(0.03 )
Net (loss) per share - basic	\$(1.39 )	\$(2.37 )	\$(2.39 )	\$(10.23 )
(Loss) per share attributable to ordinary shareholders - diluted:				
Continuing operations	\$(1.39 )	\$(2.35 )	\$(2.39 )	\$(10.20 )
Discontinued operations	-	(0.02 )	-	(0.03 )
Net (loss) per share - diluted	\$(1.39 )	\$(2.37 )	\$(2.39 )	\$(10.23 )
Dividends per ordinary share	\$0.72	\$0.70	\$1.44	\$1.40

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Weighted average shares outstanding:

Basic	339.1	335.2	336.9	335.2
Diluted	339.1	335.2	336.9	335.2

See accompanying Notes to the Consolidated Financial Statements.



## ALLERGAN PLC

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) / INCOME

(Unaudited; in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net (loss)	\$(470.1)	\$(723.9)	\$(754.0 )	\$(3,288.1)
Other comprehensive (loss) / income				
Foreign currency translation (losses) / gains	(448.6)	697.8	(264.8 )	860.4
Net impact of other-than-temporary loss on investment				
in Teva securities	-	-	-	1,599.4
Unrealized gains, net of tax	-	205.5	-	203.6
Impact of ASU No. 2016-01, net of tax	-	-	(63.0 )	-
Total other comprehensive (loss) / income, net of tax	(448.6)	903.3	(327.8 )	2,663.4
Comprehensive (loss) / income	(918.7)	179.4	(1,081.8)	(624.7 )
Comprehensive (income) attributable to noncontrolling				
interest	(2.4 )	(2.0 )	(4.6 )	(3.0 )
Comprehensive (loss) / income attributable to ordinary				
shareholders	\$(921.1)	\$177.4	\$(1,086.4)	\$(627.7 )

See accompanying Notes to the Consolidated Financial Statements.

## ALLERGAN PLC

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Six Months Ended June 30,	
	2018	2017
<b>Cash Flows From Operating Activities:</b>		
Net (loss)	\$(754.0 )	\$(3,288.1 )
Reconciliation to net cash provided by operating activities:		
Depreciation	105.2	81.2
Amortization	3,394.7	3,493.9
Provision for inventory reserve	45.4	48.7
Share-based compensation	127.4	148.5
Deferred income tax benefit	(1,359.6)	(1,478.8 )
In-process research and development impairments	798.0	1,043.3
Loss on asset sales and impairments, net	272.7	21.4
Net income impact of other-than-temporary loss on investment in Teva securities	-	1,978.0
Gain on sale of Teva securities, net	(60.9 )	-
Amortization of inventory step-up	-	87.8
Gain on sale of business	(53.0 )	-
Non-cash extinguishment of debt	4.0	(8.2 )
Cash charge related to extinguishment of debt	(13.1 )	170.5
Amortization of deferred financing costs	11.9	13.2
Contingent consideration adjustments, including accretion	(101.8 )	15.2
Other, net	(0.3 )	(22.6 )
Changes in assets and liabilities (net of effects of acquisitions):		
Decrease / (increase) in accounts receivable, net	90.3	(139.0 )
Decrease / (increase) in inventories	(113.3 )	(95.1 )
Decrease / (increase) in prepaid expenses and other current assets	39.3	10.5
Increase / (decrease) in accounts payable and accrued expenses	(40.4 )	(207.5 )
Increase / (decrease) in income and other taxes payable	365.4	673.7
Increase / (decrease) in other assets and liabilities	(59.4 )	(23.5 )
Net cash provided by operating activities	2,698.5	2,523.1
<b>Cash Flows From Investing Activities:</b>		
Additions to property, plant and equipment	(106.5 )	(137.2 )
Additions to product rights and other intangibles	-	(586.3 )
Additions to investments	(1,455.9)	(6,787.9 )
Proceeds from sale of investments and other assets	5,651.3	13,197.5
Payments to settle Teva related matters	(466.0 )	-
Proceeds from sales of property, plant and equipment	11.5	4.3
Acquisitions of businesses, net of cash acquired	-	(5,290.4 )
Net cash provided by investing activities	3,634.4	400.0
<b>Cash Flows From Financing Activities:</b>		
Proceeds from borrowings of long-term indebtedness, including credit facility	709.0	3,023.0

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Proceeds from forward sale of Teva securities	465.5	-
Debt issuance and other financing costs	-	(17.5 )
Payments on debt, including capital lease obligations and credit facility	(5,366.8)	(5,579.2 )
Cash charge related to extinguishment of debt	13.1	(170.5 )
Proceeds from stock plans	69.2	124.7
Payments of contingent consideration and other financing	(10.6 )	(505.1 )
Payments to settle Teva related matters	(234.0 )	-
Repurchase of ordinary shares	(1,572.1)	(35.2 )
Dividends paid	(563.7 )	(611.9 )
Net cash (used in) financing activities	(6,490.4)	(3,771.7 )
Effect of currency exchange rate changes on cash and cash equivalents	15.0	11.5
Net (decrease) in cash and cash equivalents	(142.5 )	(837.1 )
Cash and cash equivalents at beginning of period	1,817.2	1,724.0
Cash and cash equivalents at end of period	\$ 1,674.7	\$ 886.9
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Income taxes other, net of refunds	\$336.1	\$(250.7 )
Interest	\$520.9	\$626.9
Schedule of Non-Cash Investing and Financing Activities:		
Conversion of mandatory convertible preferred shares	\$4,929.7	\$-
Settlement of Teva Shares	\$465.5	\$-
Settlement of secured financing	\$(465.5 )	\$-
Non-cash equity issuance for the acquisition of Zeltiq net assets	\$-	\$8.5
Deferred consideration for the acquisition of Zeltiq	\$-	\$13.5
Dividends accrued	\$1.4	\$24.6

See accompanying Notes to the Consolidated Financial Statements.

## WARNER CHILCOTT LIMITED

## CONSOLIDATED BALANCE SHEETS

(Unaudited; in millions)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,673.5	\$ 1,816.3
Marketable securities	21.5	4,632.1
Accounts receivable, net	2,760.8	2,899.0
Receivables from Parents	5,833.4	5,797.4
Inventories	922.5	904.5
Prepaid expenses and other current assets	722.9	1,123.0
Total current assets	11,934.6	17,172.3
Property, plant and equipment, net	1,761.4	1,785.4
Investments and other assets	297.9	267.9
Non current receivables from Parents	3,964.0	3,964.0
Non current assets held for sale	180.4	81.6
Deferred tax assets	896.8	316.0
Product rights and other intangibles	49,928.3	54,648.3
Goodwill	49,687.2	49,862.9
Total assets	\$ 118,650.6	\$ 128,098.4
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$4,681.6	\$ 5,515.6
Payables to Parents	2,379.7	2,340.6
Income taxes payable	92.5	74.9
Current portion of long-term debt and capital leases	1,348.5	4,231.8
Total current liabilities	8,502.3	12,162.9
Long-term debt and capital leases	24,002.0	25,843.5
Other long-term liabilities	753.4	886.9
Other taxes payable	1,576.2	1,573.5
Deferred tax liabilities	5,140.5	6,349.4
Total liabilities	39,974.4	46,816.2
Commitments and contingencies (Refer to Note 19)		
Equity:		
Members' capital	72,935.1	72,935.1
Retained earnings	4,127.7	6,410.4
Accumulated other comprehensive income	1,592.9	1,920.7
Total members' equity	78,655.7	81,266.2
Noncontrolling interest	20.5	16.0
Total equity	78,676.2	81,282.2
Total liabilities and equity	\$ 118,650.6	\$ 128,098.4

See accompanying Notes to the Consolidated Financial Statements.

## WARNER CHILCOTT LIMITED

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	\$4,124.2	\$4,007.4	\$7,796.3	\$7,580.3
Operating expenses:				
Cost of sales (excludes amortization and impairment of acquired intangibles including product rights)	481.8	550.2	1,004.6	1,000.6
Research and development	689.2	489.4	1,163.9	1,249.3
Selling and marketing	853.4	935.2	1,653.4	1,804.3
General and administrative	299.5	447.7	593.6	762.0
Amortization	1,697.1	1,757.9	3,394.7	3,493.9
In-process research and development impairments	276.0	703.3	798.0	1,043.3
Asset sales and impairments, net	259.6	14.0	272.7	21.4
Total operating expenses	4,556.6	4,897.7	8,880.9	9,374.8
Operating (loss)	(432.4 )	(890.3 )	(1,084.6)	(1,794.5)
Interest income	71.8	37.2	142.1	88.6
Interest (expense)	(230.0 )	(277.4 )	(480.6 )	(567.1 )
Other income / (expense), net	215.4	(133.5 )	136.6	(2,056.3)
Total other income / (expense), net	57.2	(373.7 )	(201.9 )	(2,534.8)
(Loss) before income taxes and noncontrolling interest	(375.2 )	(1,264.0)	(1,286.5)	(4,329.3)
(Benefit) for income taxes	(5.2 )	(581.2 )	(687.4 )	(1,113.3)
Net (loss) from continuing operations, net of tax	(370.0 )	(682.8 )	(599.1 )	(3,216.0)
(Loss) from discontinued operations, net of tax	-	(8.4 )	-	(11.5 )
Net (loss)	(370.0 )	(691.2 )	(599.1 )	(3,227.5)
(Income) attributable to noncontrolling interest	(2.4 )	(2.0 )	(4.6 )	(3.0 )
Net (loss) attributable to members	\$(372.4 )	\$(693.2 )	\$(603.7 )	\$(3,230.5)

See accompanying Notes to the Consolidated Financial Statements.

## WARNER CHILCOTT LIMITED

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) / INCOME

(Unaudited; in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net (loss)	\$(370.0)	\$(691.2)	\$(599.1)	\$(3,227.5)
Other comprehensive (loss) / income				
Foreign currency translation (losses) / gains	(448.6)	697.8	(264.8)	860.4
Net impact of other-than-temporary loss on investment				
in Teva securities	-	-	-	1,599.4
Unrealized gains, net of tax	-	205.5	-	203.6
Impact of ASU No. 2016-01, net of tax	-	-	(63.0 )	-
Total other comprehensive (loss) / income, net of tax	(448.6)	903.3	(327.8)	2,663.4
Comprehensive (loss) / income	(818.6)	212.1	(926.9)	(564.1 )
Comprehensive (income) attributable to noncontrolling				
interest	(2.4 )	(2.0 )	(4.6 )	(3.0 )
Comprehensive (loss) / income attributable to members	\$(821.0)	\$210.1	\$(931.5)	\$(567.1 )

See accompanying Notes to the Consolidated Financial Statements.

## WARNER CHILCOTT LIMITED

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	Six Months Ended June 30,	
	2018	2017
<b>Cash Flows From Operating Activities:</b>		
Net (loss)	\$(599.1 )	\$(3,227.5 )
Reconciliation to net cash provided by operating activities:		
Depreciation	105.2	81.2
Amortization	3,394.7	3,493.9
Provision for inventory reserve	45.4	48.7
Share-based compensation	127.4	148.5
Deferred income tax benefit	(1,359.6)	(1,478.8 )
In-process research and development impairments	798.0	1,043.3
Loss on asset sales and impairments, net	272.7	21.4
Net income impact of other-than-temporary loss on investment in Teva securities	-	1,978.0
Gain on sale of Teva securities, net	(60.9 )	-
Amortization of inventory step up	-	87.8
Gain on sale of business	(53.0 )	-
Non-cash extinguishment of debt	4.0	(8.2 )
Cash charge related to extinguishment of debt	(13.1 )	170.5
Amortization of deferred financing costs	11.9	13.2
Contingent consideration adjustments, including accretion	(101.8 )	15.2
Other, net	(0.3 )	(22.6 )
Changes in assets and liabilities (net of effects of acquisitions):		
Decrease / (increase) in accounts receivable, net	90.3	(139.0 )
Decrease / (increase) in inventories	(113.3 )	(95.1 )
Decrease / (increase) in prepaid expenses and other current assets	40.6	13.1
Increase / (decrease) in accounts payable and accrued expenses	(38.2 )	(179.2 )
Increase / (decrease) in income and other taxes payable	365.4	673.7
Increase / (decrease) in other assets and liabilities, including receivable / payable		
with Parents	(181.0 )	(43.5 )
Net cash provided by operating activities	2,735.3	2,594.6
<b>Cash Flows From Investing Activities:</b>		
Additions to property, plant and equipment	(106.5 )	(137.2 )
Additions to product rights and other intangibles	-	(586.3 )
Additions to investments	(1,455.9)	(6,787.9 )
Proceeds from sale of investments and other assets	5,651.3	13,197.5
Payments to settle Teva related matters	(466.0 )	-
Proceeds from sales of property, plant and equipment	11.5	4.3
Acquisitions of businesses, net of cash acquired	-	(5,290.4 )
Net cash provided by investing activities	3,634.4	400.0



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Cash Flows From Financing Activities:		
Proceeds from borrowings of long-term indebtedness, including credit facility	709.0	3,023.0
Proceeds from forward sale of Teva securities	465.5	-
Debt issuance and other financing costs	-	(17.5 )
Payments on debt, including capital lease obligations and credit facility	(5,366.8)	(5,579.2 )
Cash charge related to extinguishment of debt	13.1	(170.5 )
Payments of contingent consideration and other financing	(10.6 )	(505.1 )
Payments to settle Teva related matters	(234.0 )	-
Dividends to Parents	(2,103.7)	(611.9 )
Net cash (used in) financing activities	(6,527.5)	(3,861.2 )
Effect of currency exchange rate changes on cash and cash equivalents	15.0	11.5
Net (decrease) in cash and cash equivalents	(142.8 )	(855.1 )
Cash and cash equivalents at beginning of period	1,816.3	1,713.2
Cash and cash equivalents at end of period	\$ 1,673.5	\$ 858.1
Schedule of Non-Cash Investing and Financing Activities:		
Settlement of Teva Shares	\$465.5	\$-
Settlement of secured financing	\$(465.5 )	\$-
Non-cash dividends to Parents	\$-	\$4,203.9

See accompanying Notes to the Consolidated Financial Statements

ALLERGAN PLC AND WARNER CHILCOTT LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 — General

Allergan plc is a global pharmaceutical company focused on developing, manufacturing and commercializing branded pharmaceutical (“brand”, “branded” or “specialty brand”), device, biologic, surgical and regenerative medicine products for patients around the world. Allergan markets a portfolio of leading brands and best-in-class products for the central nervous system, eye care, medical aesthetics and dermatology, gastroenterology, women’s health, urology and anti-infective therapeutic categories. Allergan is an industry leader in Open Science, a model of research and development, which defines our approach to identifying and developing game-changing ideas and innovation for better patient care. The Company has operations in more than 100 countries. Warner Chilcott Limited is an indirect wholly-owned subsidiary of Allergan plc and has the same principal business activities.

The accompanying consolidated financial statements should be read in conjunction with the Company’s annual report on Form 10-K for the year ended December 31, 2017 (“Annual Report”). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with United States generally accepted accounting principles (“GAAP”) have been condensed or omitted from the accompanying consolidated financial statements. The accompanying year end consolidated balance sheet was derived from the audited financial statements included in the Annual Report. The accompanying interim financial statements are unaudited and reflect all adjustments which are in the opinion of management necessary for a fair statement of the Company’s consolidated financial position, results of operations, comprehensive (loss) / income and cash flows for the periods presented. Unless otherwise noted, all such adjustments are of a normal, recurring nature. All intercompany transactions and balances have been eliminated in consolidation. The Company’s results of operations, comprehensive (loss) / income and cash flows for the interim periods are not necessarily indicative of the results of operations, comprehensive (loss) / income and cash flows that it may achieve in future periods.

References throughout to “we,” “our,” “us,” the “Company” or “Allergan” refer to financial information and transactions of Allergan plc. References to “Warner Chilcott Limited” refer to Warner Chilcott Limited, the Company’s indirect wholly-owned subsidiary, and, unless the context otherwise requires, its subsidiaries.

NOTE 2 – Reconciliation of Warner Chilcott Limited results to Allergan plc results

Warner Chilcott Limited is an indirect wholly-owned subsidiary of Allergan plc, the ultimate parent of the group (together with other direct or indirect parents of Warner Chilcott Limited, the “Parents”). The results of Warner Chilcott Limited are consolidated into the results of Allergan plc. Due to the de minimis activity between Warner Chilcott Limited and the Parents (including Allergan plc), content throughout this filing relates to both Allergan plc and Warner Chilcott Limited. Warner Chilcott Limited disclosures relate only to itself and not to any other

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company. Except where otherwise indicated, and excluding certain insignificant cash and non-cash transactions at the Allergan plc level, these notes relate to the consolidated financial statements for both separate registrants, Allergan plc and Warner Chilcott Limited. In addition to certain inter-company payable and receivable amounts between the entities, the following is a reconciliation of the financial position and results of operations of Warner Chilcott Limited to Allergan plc (\$ in millions):

	As of June 30, 2018			As of December 31, 2017		
	Warner Chilcott			Warner Chilcott		
	Allergan plc	Limited	Difference	Allergan plc	Limited	Difference
Cash and cash equivalents	\$1,674.7	\$1,673.5	\$ 1.2	\$1,817.2	\$1,816.3	\$0.9
Prepaid expenses and other current assets	724.2	722.9	1.3	1,123.9	1,123.0	0.9
Deferred tax assets	899.9	896.8	3.1	319.1	316.0	3.1
Accounts payable and accrued liabilities	4,683.8	4,681.6	2.2	5,541.4	5,515.6	25.8
Income taxes payable	93.0	92.5	0.5	74.9	74.9	-
Other taxes payables	1,576.6	1,576.2	0.4	1,573.9	1,573.5	0.4
Deferred tax liabilities	5,137.5	5,140.5	(3.0 )	6,352.4	6,349.4	3.0
Total equity	71,264.0	78,676.2	(7,412.2 )	73,837.1	81,282.2	(7,445.1 )

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	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Warner		Chilcott	Warner		Chilcott
	Allergan plc Limited	Difference		Allergan plc Limited	Difference	
General and administrative expenses	\$334.1	\$299.5	\$ 34.6	\$630.0	\$593.6	\$ 36.4
Operating (loss)	(467.0)	(432.4)	(34.6 )	(1,121.0)	(1,084.6)	(36.4 )
Interest income	6.3	71.8	(65.5 )	23.6	142.1	(118.5 )
(Loss) before income taxes and noncontrolling interest	(475.3)	(375.2)	(100.1 )	(1,441.4)	(1,286.5)	(154.9 )
Net (loss) from continuing operations, net of tax	(470.1)	(370.0)	(100.1 )	(754.0 )	(599.1 )	(154.9 )
Net (loss)	(470.1)	(370.0)	(100.1 )	(754.0 )	(599.1 )	(154.9 )
Dividends on preferred shares	-	-	-	46.4	-	46.4
Net (loss) attributable to ordinary shareholders/members	(472.5)	(372.4)	(100.1 )	(805.0 )	(603.7 )	(201.3 )

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Warner		Chilcott	Warner		Chilcott
	Allergan plc Limited	Difference		Allergan plc Limited	Difference	
General and administrative expenses	\$459.8	\$447.7	\$ 12.1	\$775.9	\$762.0	\$ 13.9
Operating (loss)	(902.4 )	(890.3 )	(12.1 )	(1,808.4)	(1,794.5)	(13.9 )
Interest income	16.6	37.2	(20.6 )	41.9	88.6	(46.7 )
(Loss) before income taxes and noncontrolling interest	(1,296.7)	(1,264.0)	(32.7 )	(4,389.9)	(4,329.3)	(60.6 )
Net (loss) from continuing operations, net of tax	(715.5 )	(682.8 )	(32.7 )	(3,276.6)	(3,216.0)	(60.6 )
Net (loss)	(723.9 )	(691.2 )	(32.7 )	(3,288.1)	(3,227.5)	(60.6 )
Dividends on preferred shares	69.6	-	69.6	139.2	-	139.2
Net (loss) attributable to ordinary shareholders/members	(795.5 )	(693.2 )	(102.3 )	(3,430.3)	(3,230.5)	(199.8 )

The difference between general and administrative expenses in the three and six months ended June 30, 2018 and 2017 was due to corporate related expenses incurred by Allergan plc. Movements in equity were due to historical differences in the results of operations of the companies and differences in equity awards.

As of June 30, 2018 and December 31, 2017, Warner Chilcott Limited had \$5.8 billion in Receivables from the Parents. As of June 30, 2018 and December 31, 2017, Warner Chilcott Limited had \$4.0 billion in Non-current Receivables from the Parents. These receivables related to intercompany loans between Allergan plc and subsidiaries of Warner Chilcott Limited. These loans are interest-bearing loans with varying term dates and cause a difference in interest income between the two entities. Total interest income recognized during the three and six months ended June 30, 2018 was \$65.5 million and \$118.5 million, respectively. Total interest income recognized during the three and six months ended June 30, 2017 was \$20.6 million and \$46.7 million, respectively.

#### NOTE 3 — Summary of Significant Accounting Policies

The following are interim updates to certain of the policies described in “Note 4” of the notes to the Company’s audited consolidated financial statements for the year ended December 31, 2017 included in the Annual Report.

##### Implementation of New Guidance

On January 1, 2018, we adopted Accounting Standards Update (“ASU”) No. 2014-09, "Revenue from Contracts with Customers" (“Topic 606”) using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting practices. The impact to revenues for the three and six months ended June 30, 2018 was not significant as a result of the adoption. The adoption of this guidance does not have a material impact on the Company’s financial position or results of operations as the Company’s sales primarily are governed by standard bill and ship terms of pharmaceutical products to customers.

The Company applies the practical expedient as defined in Topic 606 to recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. These costs which are included in selling, general, and administrative expenses are consistent with the accounting prior to the adoption of Topic 606. The Company also elected to use the practical expedient to not adjust the promised amount of consideration for the effects of the time value of money for contracts in which the anticipated period between when the Company transfers the goods or services to the customer and when the customer pays is equal to one year or less.

On January 1, 2018, the Company adopted ASU No. 2016-01, which now requires equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. Under the previous guidance, changes in the fair value of equity securities were recognized through other comprehensive income.

On January 1, 2018, the Company adopted ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. Previously, GAAP prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This prohibition on recognition was an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP. The amendment to the guidance eliminated the exception for an intra-entity transfer of an asset other than inventory and required an entity to recognize the income tax consequences when the transfer occurs.

The following represents the impact on the Company's Consolidated Balance Sheet as a result of the adoption on January 1, 2018 of these accounting pronouncements (\$ in millions):

Pronouncement	Increase / (decrease)		Accounts payable and accrued expenses	Deferred tax liabilities	Retained earnings	Accumulated other comprehensive income / (loss)
	Prepaid expenses and other receivables net	Accounts receivable net				
Accounting Standards Update No.						
2014-09	\$1.9	\$ -	\$ (3.6 )	\$ -	\$ 5.5	\$ -
Accounting Standards Update No.						
2016-01	\$-	\$ -	\$ -	\$ -	\$ 63.0	\$ (63.0 )
Accounting Standards Update No.						
2016-16	\$-	\$ (44.8 )	\$ -	\$ (401.0 )	\$ 356.2	\$ -

On January 1, 2018, the Company adopted ASU 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments. This standard amends and adjusts how cash receipts and cash payments are presented and classified in the statement of cash flows. As a result of the guidance, the Company retrospectively applied the standard which resulted in a reclassification of debt extinguishment costs from cash flows from operating activities to cash flows from financing activities. As a result of the guidance cash flows from operating activities increased by \$170.5 million and cash flows from financing activities decreased by \$170.5 million in the six months ended June 30, 2017. Cash flows from operating activities will increase by \$205.6 million and cash flows from

financing activities will decrease by \$205.6 million for the year ended December 31, 2017.

On January 1, 2018, the Company adopted ASU No. 2017-07, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This update requires that an employer disaggregate the service cost component from the other components of net periodic benefit cost. Upon adoption, the Company recorded other components of the net periodic benefit cost with “other income / (expense), net.”

#### Revenue Recognition

#### General

Topic 606 provides that revenues are recognized when control of the promised goods under a contract is transferred to a customer, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods as specified in the underlying terms with the customer. The Company warrants products against defects and for specific quality standards, permitting the return of products under certain circumstances. Product sales are recorded net of all sales-related deductions including, but not limited to: chargebacks, trade discounts, commercial and government rebates, customer loyalty programs fee-for-service arrangements with certain distributors, returns, and other allowances which we refer to in the aggregate as sales returns and allowances (“SRA”).

The Company's performance obligations are primarily achieved when control of the products is transferred to the customer. Transfer of control is based on contractual performance obligations, but typically occurs upon receipt of the goods by the customer.

Prior to the achievement of performance obligations, shipping and handling costs associated with outbound freight for a product to be transferred to a customer are accounted for as a fulfillment cost and are included in selling and marketing expenses.

Other revenues earned are mainly comprised of royalty income from licensing of intellectual property. Royalty income is recognized when the licensee's subsequent sale occurs.

Refer to "NOTE 8 –Reportable Segments" for our revenues disaggregated by product and segment and our revenues disaggregated by geography for our international segment. We believe this level of disaggregation best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

#### Significant Payment Terms

A contract with a customer states the final terms of the sale, including the description, quantity, and price of each product purchased. The Company's payment terms vary by the type and location of the customer and the products offered. A customer agrees to a stated rate and price in the contract and given that most of the products sold contain variable consideration, the amount of revenue recognized incorporates adjustments for SRAs as appropriate.

#### Determining the Transaction Price

The Company offers discounts and rebates to certain customers who participate in various programs that are referred to as SRA allowances as described further below in the section "Provisions for SRAs". Such discounting and rebating activity is included as part of the Company's estimate of the transaction price and is accounted for as a reduction to gross sales. At time of sale, the Company records the related SRA adjustments to sales as described further below in the section "Provisions for SRAs". The Company performs a level of validation each period to assess the adequacy of the liability or contra receivable recorded to reflect actual activity and will adjust the reserve balances accordingly.

#### Provisions for SRAs

As is customary in the pharmaceutical industry, certain customers may receive cash-based incentives or credits, which are variable consideration accounted for as SRAs. The Company estimates SRA amounts based on the expected amount to be provided to customers, which reduces the revenues recognized. The Company believes that there will not be significant changes to our estimates of variable consideration. The Company uses a variety of methods to assess



the adequacy of the SRA reserves to ensure that our financial statements are fairly stated. These provisions are estimated based on historical payment experience, the historical relationship of the deductions to gross product revenues, government regulations, estimated utilization or redemption rates, estimated customer inventory levels and current contract sales terms. The estimation process used to determine our SRA provisions has been applied on a consistent basis and no material revenue adjustments have been necessary to increase or decrease our reserves for SRA as a result of a significant change in underlying estimates.

**Chargebacks** — A chargeback represents an amount payable in the future to a wholesaler for the difference between the invoice price paid by such wholesaler customer for a particular product and the negotiated contract price that the wholesaler's customer pays for that product. The chargeback provision and related reserve varies with changes in product mix, changes in customer pricing and changes to estimated wholesaler inventories. The provision for chargebacks also takes into account an estimate of the expected wholesaler sell-through levels to indirect customers at certain contract prices. The Company validates the chargeback accrual quarterly through a review of the inventory reports obtained from our largest wholesale customers. This customer inventory information is used to verify the estimated liability for future chargeback claims based on historical chargeback and contract rates. These large wholesalers represent the vast majority of the recipients of the Company's chargeback credits. We continually monitor current pricing trends and wholesaler inventory levels to ensure the contra-receivable for future chargebacks is fairly stated.

**Rebates** — Rebates include volume related incentives to direct and indirect customers, third-party managed care and Medicare Part D rebates, Medicaid rebates and other government rebates. Rebates are accrued based on an estimate of claims to be paid for product sold into trade by the Company. Volume rebates are generally contractually offered to customers as an incentive to use the Company's products and to encourage greater product sales. These rebate programs include contracted rebates based on customers' purchases made during an applicable monthly, quarterly or annual period. The provision for third-party rebates is estimated based on our customers' contracted rebate programs and the Company's historical experience of rebates paid. Any significant changes to our customer rebate programs are considered in establishing the provision for rebates. The provisions for government rebates are based, in part, upon historical experience of claims submitted by the various states and authorities, contractual terms and government regulations. We monitor legislative changes to determine what impact such legislation may have on our provision.

**Cash Discounts** — Cash discounts are provided to customers that pay within a specific time period. The provision for cash discounts is estimated based upon invoice billings and historical customer payment experience. The Company's experience of payment history is fairly consistent and most customer payments qualify for a cash discount.

**Returns and Other Allowances** — The Company's provision for returns and other allowances include returns, promotional allowances and loyalty cards.

Consistent with industry practice, the Company maintains a returns policy that allows customers to return product for a credit. In accordance with the Company's policy, credits for customer returns of products are applied against outstanding account activity or are settled in cash. Product exchanges are generally not permitted. Customer returns of product are generally not resalable. The Company's estimate of the provision for returns is based upon historical experience and current trends of actual customer returns. Additionally, we consider other factors when estimating the current period returns provision, including levels of inventory in the distribution channel, as well as significant market changes which may impact future expected returns.

Promotional allowances are credits with no discernable benefit offered to Allergan that are issued in connection with a product launch or as an incentive for customers to carry our product. The Company establishes a reserve for promotional allowances based upon contractual terms.

Loyalty cards allow end-user patients a discount per prescription and are accrued based on historical experience, contract terms and the volume of product and cards in the distribution channel.

The following table summarizes the activity from continuing operations in the Company's major categories of SRA (\$ in millions):

# Returns and

# Other

	Chargebacks	Rebates	Allowances	Cash Discounts	Total
Balance at December 31, 2017	\$ 77.2	\$1,799.2	\$ 517.6	\$ 36.5	\$2,430.5
Provision related to sales in 2018	550.9	2,556.5	859.6	155.4	4,122.4
Credits and payments	(565.6 )	(2,622.2)	(842.1 )	(161.8 )	(4,191.7)
Balance at June 30, 2018	\$ 62.5	\$1,733.5	\$ 535.1	\$ 30.1	\$2,361.2
Contra accounts receivable at June 30, 2018	\$ 62.5	\$67.4	\$ 42.9	\$ 30.1	\$202.9
Accounts payable and accrued expenses					
at June 30, 2018	\$ -	\$1,666.1	\$ 492.2	\$ -	\$2,158.3

The following table summarizes the balance sheet classification of our SRA reserves (\$ in millions):

	June 30, 2018	December 31, 2017
Contra accounts receivable	\$202.9	\$ 250.6

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Accounts payable and accrued expenses	2,158.3	2,179.9
Total	\$2,361.2	\$ 2,430.5

The SRA provisions recorded to reduce gross product sales to net product sales, excluding discontinued operations, were as follows (\$ in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gross product sales	\$6,095.5	\$5,888.4		