ALLERGAN: A HIGH QUALITY COMPOUNDER

June 2015

POLENCAPITAL.COM

Stephen Atkins, CFA
Research Analyst

Executive Summary

The recent $70.5 billion acquisition of Allergan by the Irish pharmaceutical company, Actavis plc, turned the final page on Polen Capital's six-year investment in Allergan— this was a profitable period that yielded a robust return of approximately six-fold for Polen clients.

The Allergan investment decision was the natural outcome of successfully executing our investment discipline. When we began researching Allergan in 2005, it met all of the quantitative hurdles that we initially look for: sustained high returns on capital, above-average earnings per share and free cash flow growth, strong and improving margins, reasonable debt levels, and a very capable management team.

But while those are all the earmarks of a great business, our investment team still needed to dedicate the time to more carefully evaluate whether it truly *was* a great business. We patiently built our knowledge of the company over several years and waited for a compelling risk/reward scenario to present itself. The global financial crisis in late 2008 provided that compelling opportunity. Allergan shares declined as sales of its discretionary aesthetic products slowed pushing the company's P/E multiple below 15x. Given our long-term view on the business's growth potential, we believed this was an ideal entry point.

We built a position in Allergan, and as the business delivered solid fundamental performance during the next several years—consistent with its history and its favorable ongoing market position—the shares rose as well. While we consider underlying earnings per share and free cash flow growth to be the primary drivers of long-term share price performance, Allergan's stock also benefited as the P/E multiple expanded from depressed levels. While it was never central to our investment thesis, we always recognized that Allergan's strong growth and leadership position in its specialty markets also made the company an attractive acquisition target for larger healthcare companies seeking to maintain attractive growth profiles. We never invest in a business on the hope of a take-out, but being an ever-attractive acquisition candidate can provide a measure of downside protection (particularly at a more depressed valuation).

In this paper, we examine some of the unique factors that drove our decision to invest initially, and to maintain our position even during a particularly difficult time for the pharmaceutical firm. We will also lay out some of the attributes that made Allergan an attractive acquisition target, and we explore some of its hidden strengths that enabled the company to successfully defend itself during the acquisition process, push the buying price of the company to unexpected levels, and extract full and fair value for its shareholders.

KEY THEMES

BUSINESS TRANSFORMATION
Allergan shifted its business mix away from medical devices to faster growing specialty pharmaceutical treatments.

REASONABLE VALUATION
We initiated our position in Allergan for less than 15 times current EPS for a business that was growing 20% annually.

PATIENT APPROACH
We maintained our position through some temporary setbacks because of our conviction in the company and its management team.

COMPOUNDING MACHINE
Over the six years in which we were investors, Allergan compounded EPS at 21% per year with an average annual rate of return of 32%.

ALLERGAN Investment Case Study

As 2014 wound to a close, Polen Capital celebrated the 26th anniversary of the firm's founding. This milestone was borne out of the hard work and determination of our employees, past and present, as well as the loyalty of our clients. Though not nearly as significant as surviving—and, indeed, prospering—for a quarter of a century in the investment industry, we achieved another milestone in 2014: the publication of our first white paper.

We view the creation of white papers and other "thought pieces" as part of the natural evolution of our business. Along with our quarterly commentaries, these serve as a conduit to communicate with our clients and provide greater clarity on our investment firm and the industry in which we operate.

No sooner had we put the finishing touches on our first white paper than the discussion of our next white paper topic had begun. Several ideas were bandied about, many of which may become future thought pieces, but in the midst of all the debate, it was our own portfolio that provided inspiration. In the first quarter of 2015 we divested our remaining position in Allergan Inc., which brought to an end a very rewarding six-year relationship with the company. Over that time, Allergan's stock increased roughly six-fold and provided our clients with a 32% annualized total return.

To be clear, this isn't about us taking a victory lap over a successful investment. Rather, it struck us that the Allergan story involves many of the investment merits that we covet most at Polen: an easy to understand company, a clear path to strong earnings growth over many years, a capable management team, high returns on capital and a dominant market position with high barriers to entry.

Ultimately it was these attributes, along with a patient outlook, that led to the investment being such a success for our clients. It occurred to us that a case study of our Allergan holding might be a great way for investors to better understand our investment approach. Thus, what follows is a detailed account of Allergan's "lifecycle" in our portfolio, starting from our initial research on the company and concluding with its eventual acquisition by Actavis plc. We hope that you find the discussion instructive and enlightening.

PART I — THE WAITING GAME

The first research note on Allergan, courtesy of our co-portfolio manager Damon Ficklin, dates back to August 2005. Typically our initial research notes on a company contain just that, our initial thoughts on the business after reading their annual reports, earnings releases and other relevant information.

For some background, Allergan is a healthcare company that was once a subsidiary of SmithKline Beecham before being spun out in 1989. Since then it had been transforming itself from a medical device-focused company into a specialty pharmaceuticals business focused on ophthalmic and aesthetic products. The company is perhaps best known for its injectable neurotoxin, Botox, which was approved for a number of medical conditions and was becoming hugely popular as a cosmetic treatment for wrinkles.

The best companies usually stand out immediately and Allergan was no exception. Damon noted at the time that the company "Looks like a solid business with some interesting possibilities." What caught Damon's eye was Allergan's business mix, which by 2005 was fully dedicated to innovative specialty pharmaceutical products with more promising growth potential than the medical device businesses that had preceded them.

He was also impressed with Allergan's commitment to R&D, nearly 20% of sales at that point, as well as with their high-powered Board of Directors which included Herbert Boyer, the founder of Genentech, and a number of other experienced executives from the pharmaceutical, medical devices, health insurance and consumer products industries.

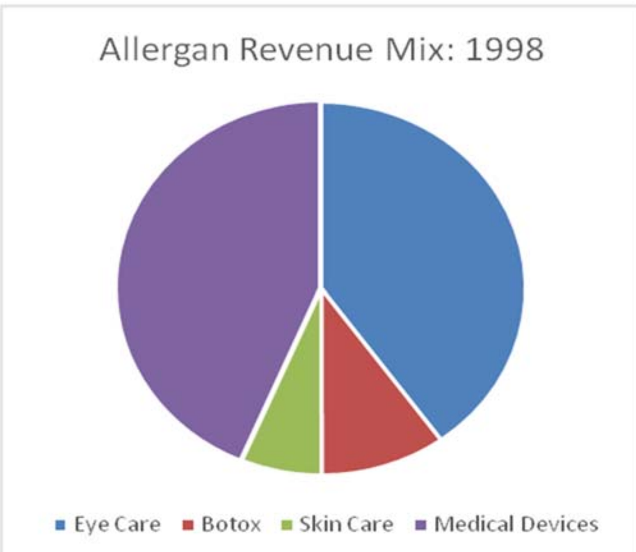
Finally, Botox stood out as a particularly remarkable therapy in that it was a biological medicine which was difficult to manufacture and had already lost patent protection several years prior. It also had a variety of therapeutic uses, an established cosmetic brand and dominant market share. Still, this was just a first pass. Much more work would need to be done in order to determine whether Allergan was worthy of one of the twenty or so spots in our portfolio.

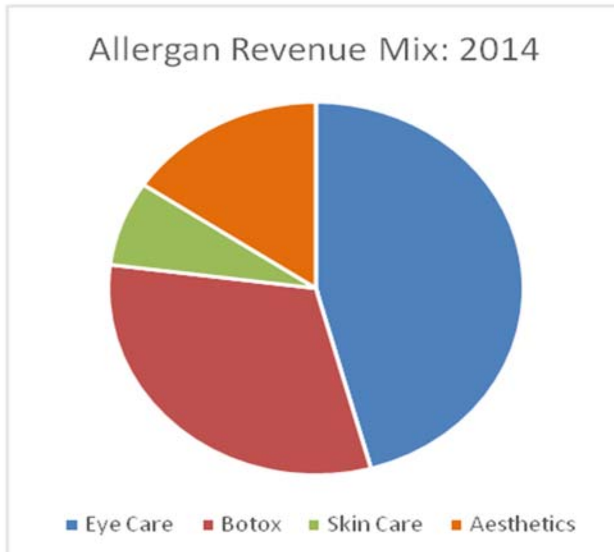
After his initial note, Damon continued to follow Allergan closely and updated his thoughts with additional notes every three months. He examined the company's 2005 acquisition of Inamed, a manufacturer of breast implants and dermal fillers, for which Allergan paid $3bn and trumped a competing offer from rival Medicis. The deal wasn't cheap, with Allergan paying over 30x adjusted earnings, but it was becoming clear that Allergan's CEO since 1998, David Pyott, had a vision for where he wanted to take the company. Allergan's product set focused increasingly on localized treatments (eye drops, injectable medicines, skin creams) rather than systemic ones (traditional oral medications). Localized treatments are often more effective with less side effects than their systemic counterparts.

Furthermore, Inamed's focus on breast and facial aesthetics would be a nice complement to the company's Botox franchise. The aesthetics business had attractive economics due to the fact it was more of a consumer franchise than a true pharmaceutical one. Therefore typical obstacles for drug companies, such as insurance reimbursement and patent expirations, weren't as big an issue. Additionally, Pyott made a point of becoming vertically integrated so that Allergan controlled the development, manufacturing and distribution of its products. As a result, a defendable moat was forming around the entire business that would increasingly enable Allergan to gain scale relative to many of its smaller peers. Pyott's goal was for Allergan to be the number one or two player in its major markets (something that would subsequently be achieved).

The shift in Allergan's business mix during Pyott's tenure is illustrated in Exhibit 1.

Exhibit 1





By late 2007, Damon was increasingly convinced that Allergan belonged in our portfolio. In a note from October 2007, he commented that Allergan is "the kind of company we would like to own at the right price." The sticking point at the time was valuation. At a P/E of roughly 28x current year earnings, Allergan's stock was elevated and there were concerns about increased competition in the next two years for the company's glaucoma franchise as well as for Botox. Combined, the glaucoma and Botox businesses accounted for over 50% of Allergan's sales and both businesses had been growing at a mid to high teen rate.

Any slowdown in these segments would be impactful to the company's growth going forward. Though Allergan was fairly well positioned to defend its products through line extensions, new approvals and increased marketing spend, our investment approach has always been grounded in prudence.

We want to pay a fair value for our conservative estimate of the business's underlying cash flow growth. By late 2007, Allergan's stock simply hadn't met the risk/reward balance that we seek. There was nothing to do but wait.

Part II – Botox and Lehman Brothers

Botox is a purified, diluted form of botulinum which is the bacteria that causes botulism, a potentially fatal disease. Though Botox had been well vetted for nearly two decades, concerns about the drug's safety flared up from time to time. One such flare-up occurred in early 2008 when the FDA launched a safety review of Botox after some adverse events were reported in children with cerebral palsy.[3] Around the same time, Botox sales growth slowed noticeably, from 22% in the first six months of 2007 to 15% in the first six months of 2008, though this was more likely due to the broader deceleration in the economy.

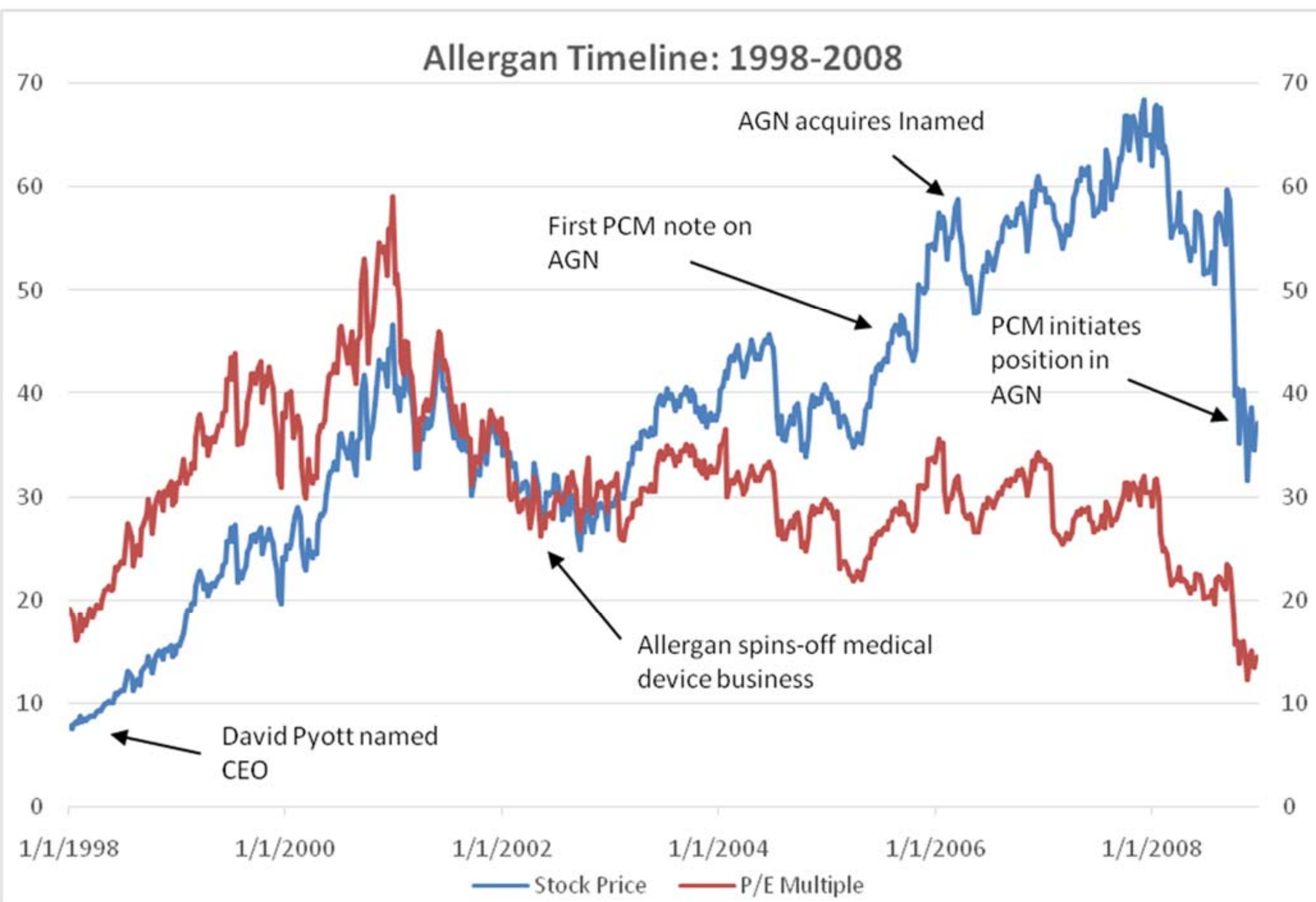
As a result of these events, Allergan's stock price trended lower through the first half of 2008 from the high $60s to the low $50s and it's P/E multiple had contracted to 20x by July of that year.

At this valuation, the stock's risk/reward was more balanced, especially if we could get comfortable that there were no long-term issues with the Botox franchise. By the autumn of 2008, however, Lehman Brothers helped make this a far easier decision.

The collapse of Lehman in September of 2008, and the resulting market sell-off, pushed Allergan's stock price down to the mid $30s by October and its P/E multiple dropped below 15x. In a note from October 2008, Damon commented that despite the slowdown in Allergan's business, "the share price decline already accounts for most of the downside and new products expected to be approved in 2009 should drive a reacceleration in growth in 2010 and beyond."

The risk/reward balance had finally tipped in our clients' favor. During the first week in November, Allergan was added to the portfolio. The timeline of these events can be seen in the chart in Exhibit 2.

Exhibit 2



Part III – Let the Compounding Begin

After our initial purchase of Allergan in November of 2008, we gradually built our position in the stock during the next several months; by mid-2009 it was a 6% weight in our portfolio. As Damon had predicted the slowdown in Allergan's aesthetic businesses, namely Botox, proved to be temporary and starting in late 2009, the company's business began to re-accelerate. In the first quarter of 2009 Allergan's sales declined by 6.5%, but by the fourth quarter of 2009 total sales growth had re-accelerated to 16%. Importantly, on an annual basis Allergan grew both sales and earnings during the recession.

This has been a hallmark of the types of businesses we seek to invest in at Polen Capital: those with the ability to grow even during tough economic periods. Allergan's strong growth continued during the next three years and from 2009-2012 the company had annual compounded earnings growth of 14%. Additionally, the stock's P/E multiple began to expand again as business fundamentals improved, which propelled Allergan's stock from $40 per share at the end of 2008 to $91 per share by year-end 2012, an annualized gain of nearly 23%.

Botox grew during this period to become a $1.8bn franchise by year-end 2012. Even at this size it was still growing at a low double-digit rate and this was despite new competition that had entered the market in the past two years. The eye care division also continued its steady growth, despite increased competition. The standout in the company's eye care franchise was Restasis, the only FDA-approved prescription treatment for dry-eye. By year-end 2012, Restasis was growing at a mid-teens rate and generated nearly $800mm in sales, 14% of the company's total revenues at that point.

Allergan's management team also continued to devote substantial company cash flow to new product development. Botox had received approval for treatment of chronic daily headaches and was likely to be approved for treatment of over-active bladder in the coming months. The company had also licensed a drug called DARPin, which is a therapy for Wet Age-Related Macular Degeneration (Wet AMD) that was in Phase II trials. Wet AMD is a chronic eye disease that can cause permanent vision loss and is typically treated with painful injections to the back of the eye. Newer treatments such as DARPin featured a longer treatment-duration profile, which meant patients could potentially go extended intervals (every three months) between injections.

The global market for Wet AMD drugs was nearly $4bn at the time with the vast majority of sales split among only three drugs which meant that DARPin, to the extent it was truly differentiated, could be a meaningful revenue contributor to Allergan if it proved to be successful.[4] Finally, the company was running trials to investigate whether its product Latisse, which was approved as a treatment to thicken eyelashes, might also be utilized as a treatment for hair regrowth that would be superior to the widely used Minoxidil. Allergan's future looked as bright as ever.

Part IV – Double Whammy

For long-term investors, the conviction they have in an investment thesis is inevitably put to the test at some point during their holding period. Polen's moment with Allergan occurred in 2013 when the company was hit with two bits of bad news in short succession.

The year had started out great for Allergan investors and in the first four months of 2013 the stock had risen 24%. But that ebullience quickly subsided when the company reported its first quarter earnings and surprised investors by announcing that their promising DARPin therapy as well as Latisse for hair regrowth would both be delayed as the company needed to run more trials. In both cases it appeared that the clinical results were not as encouraging as initially hoped and more data would be needed to prove the efficacy of the therapies. Though it was notable that the trials for both therapies were only delayed and not terminated—a far more negative outcome—investors were still dissatisfied.

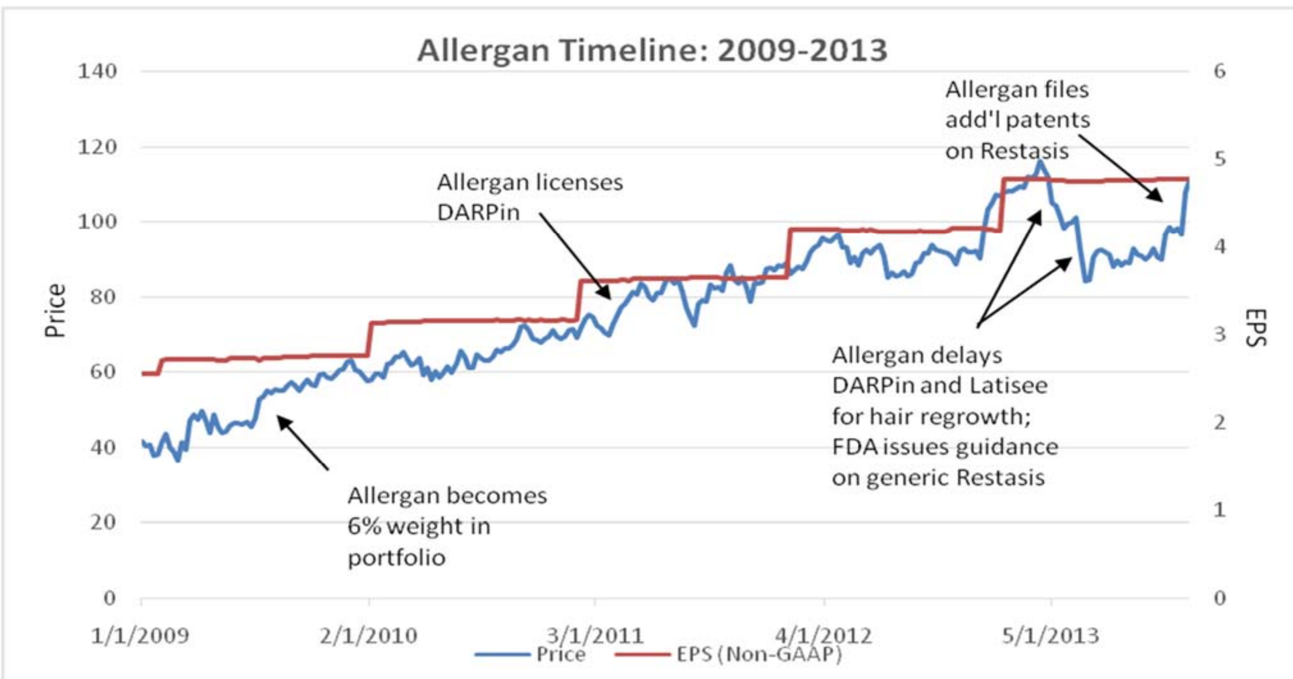
Allergan's stock fell 13% the day the news was announced. Despite this setback, and somewhat lost in the noise around the disappointing trial results, Allergan's core business was still performing very well with first quarter sales up 9% and adjusted EPS up 16%. With such strong ongoing fundamental business performance, we were comfortable looking beyond a couple of temporary pipeline setbacks.

Allergan was broadsided again less than two months later when the FDA proposed draft guidance that would lower the bar for bringing a generic form of Restasis to market. For some context, Restasis (a prescription treatment for dry eye that comprised nearly 15% of Allergan's sales) was a hard-to-manufacture emulsion product.

The company's patent on the drug was due to expire in 2014 but, because of the difficulties in manufacturing and testing a competitive emulsion, no generic company had even bothered to challenge the patent. This niche prescription market essentially belonged to Allergan. The FDA's new draft guidance, however, would potentially make it much easier to develop a competitive product by not requiring a generic company to run the large patient trials previously deemed necessary to gain approval. Essentially, the draft guidance proposed that by simply proving their emulsion was close enough in characteristics ("bioequivalence" in industry parlance), a generic drug manufacturer could potentially get approval. Typically the FDA only grants these types of approvals for oral pills that are easier to manufacture. For a more complex product like Restasis this appeared to be an unusual decision. Not surprisingly, Allergan's stock was hit hard once again; it fell 12% the day the FDA released their draft guidance and was down 30% from its April high. Once a Wall Street darling, sell-side analysts began abandoning the Allergan ship and a slew of downgrades followed. It was only natural that we asked ourselves if we should consider doing the same.

A timeline of the events from 2009-2013 are shown in the chart in Exhibit 3.

Exhibit 3



Despite much consternation, there was one question that was paramount: Even with these recent issues, was Allergan still a great business for the long-term? Our answer was undoubtedly yes. The company's mid-stage pipeline had taken a couple of hits with delays for DARPin and Latisse, but this seemed fully accounted for now in the stock price. Even the potential for generic competition with Restasis appeared to be discounted in the current valuation. By mid-year 2013 Allergan shares traded for about 18x earnings, the lowest P/E multiple since 2009. Growth in the core franchise was still very healthy, the competitive advantages around the business remained very strong and management had several levers it could pull. Measures such as cost reductions or share repurchases could be implemented to enhance earnings growth. Furthermore, it was entirely possible that the current issues that had affected the company might resolve favorably. Both DARPin and Latisse had been delayed but not terminated and the company planned to vigorously challenge the FDA's draft guidance on Restasis generics.

Since the bad news had already been priced into the stock, there was optionality if any of these issues worked out positively. With Allergan's stock a 5.5% weight in our portfolio, we decided to maintain our position.

Part V – A 'Valeant' Fight

From June 2013 until November of that year, Allergan's stock treaded water. By late in the fourth quarter, however, the stock began to recover nicely and for the year actually appreciated 21%. The company's fundamentals continued to shine through, and for the full year 2013 total sales grew 11.5% and adjusted EPS grew 18%. Additionally, late in the year the company began to take aggressive action to defend its Restasis franchise by filing new patents on the product that would have potentially delayed any generic competition for several additional years.

As the calendar flipped into 2014 it appeared that the issues that had plagued Allergan the year before may have simply been speed bumps. But then in mid-April of that year something odd began to happen. Allergan's stock price started rapidly appreciating on heavy volume. From April 10 to April 21 the stock price rallied from $116 to $142. We speculated as to what could be driving the share price higher in such brisk fashion, and by the end of the day on April 21 we had our answer.

Valeant Pharmaceuticals, in collaboration with the hedge fund Pershing Square, made an unsolicited offer to acquire Allergan for nearly $48bn, or roughly $160/share. The offer was a mix of cash (roughly $15bn) and Valeant stock. Additionally, Pershing Square, run by well-known hedge fund manager Bill Ackman, had accumulated a nearly 10% stake in Allergan in the days leading up to the offer announcement. Allergan's stock moved sharply higher and by April 25 was $168.

This unusual partnership, with Ackman's fund acquiring a massive stake in Allergan immediately prior to a deal being made public, quite frankly didn't pass the smell test to us. But it became clear in the days following the announcement that both Pershing Square and Valeant had taken great pains to ensure compliance with SEC regulations.

There were two issues that immediately leapt out to us shortly after the Valeant/Pershing proposal was announced. First, the offer was far short of our estimate of fair value for Allergan's business. Second, it was very unlikely that we would be interested in holding Valeant stock should a deal between the companies actually be consummated. Valeant Pharmaceuticals was a Canada-based business that had grown rapidly over the last few years with an aggressive M&A strategy that took advantage of the company's low corporate tax rate.

This low rate, only 8% in Canada, allowed Valeant to acquire businesses in higher tax jurisdictions such as the U.S. and make them highly accretive almost immediately. Valeant pursued what we liked to term an "optimization strategy."

The company was led by a no non-sense CEO, Mike Pearson, who felt that the pharmaceutical industry wasted far too much money in trying to develop drugs, many of which would never even reach commercialization. His approach was to acquire companies with products that had steady, predictable growth and little patent risk or insurance reimbursement issues and then "optimize" the assets by stripping out excess costs associated with R&D and marketing.

To this end, Allergan was an ideal target for him with its mix of durable products in aesthetics, skin care and eye care. Valeant had already acquired Allergan's rival Medicis in 2012 as well as contact lens manufacturer Bausch & Lomb in 2013. As a result of this aggressive buying spree, Valeant's balance sheet had in excess of $17bn in long-term debt by the end of 2013 compared to only a little over $5bn in equity.

With our strict focus on companies with strong balance sheets, Valeant's aggressive M&A strategy and high debt levels made it a poor fit for our portfolio.[5] Because the majority of Valeant's offer for Allergan was comprised of stock rather than cash it was clear from the outset that Valeant's management would be keen on promoting the value their deal created for both companies' shareholders. As investor confidence in the deal increased, so too would Valeant's stock price which in turn would push up the overall value of their offer.

So it was not a surprise to us, as a large Allergan shareholder, when in early May we were contacted by Valeant's management team. They wanted to meet to discuss the offer and were willing to come down to our office in Florida. At that meeting Mike Pearson, as well as Valeant's CFO Howard Schiller, laid out their case for the deal and why our focus shouldn't just be on the offer at hand but on the long-term potential of the combined businesses. We discussed with them our concerns around Valeant's business model and balance sheet and expressed that we were not likely to own the combined company in our portfolio.

As such, we were not interested in the potential for post-deal synergies, but were seeking full and certain value for our Allergan shares. Furthermore, we were content to continue to own stand-alone Allergan and let the business compound earnings and value over time.

To the extent Valeant was feeling us out to see if we would support the deal, they likely left disappointed. After our meeting with Valeant, we scheduled a meeting with Allergan's management team at their company headquarters in Irvine, CA. At that meeting, our CIO Dan Davidowitz was forthright about where we stood. "We view Allergan as a great business," he told CEO David Pyott, "so if someone wants our shares they'll need to pay a premium to get them."

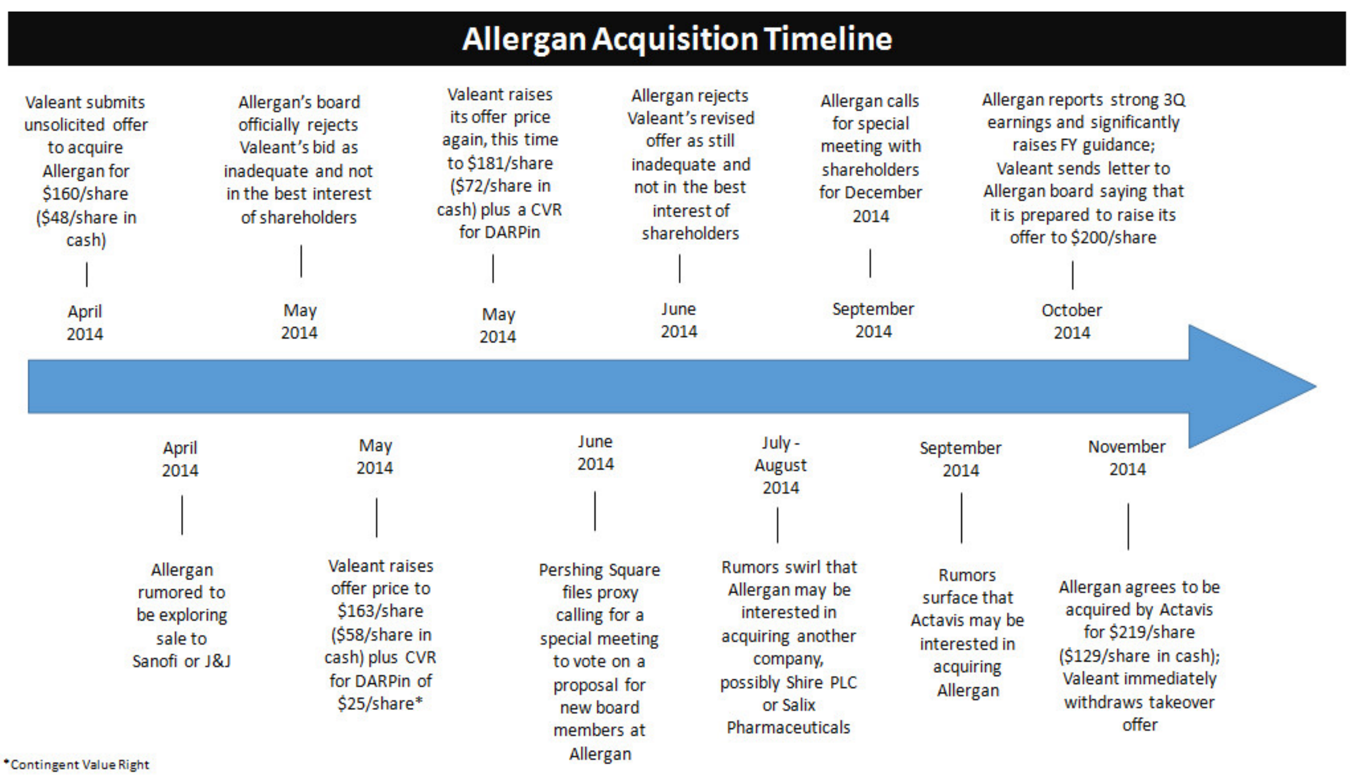
Pyott, a soft-spoken Brit with Scottish parents, happily agreed telling us that, despite his long tenure at Allergan, this was not an emotional decision. His priority was to maximize value for Allergan shareholders by providing the investment community with perspective on the company's future growth potential. Doing so would effectively raise the bar for an acquirer, Valeant or otherwise, as Allergan shareholders would see the true value of the business and demand a fair price for it. But this process would take time and require some patience. We left the meeting feeling confident that management's priorities appeared to be completely aligned with ours and our clients. The next several months of 2014 saw Allergan and Valeant involved in an entertaining corporate stand-off, a timeline of which can be seen in Exhibit 4.

From the Allergan side, David Pyott put pressure on the Valeant board by raising earnings guidance on multiple occasions and arguing that Allergan was far more valuable as a standalone company. He also repeatedly assailed Valeant's business model and accused the company of using an aggressive roll-up strategy to drive growth that wouldn't be sustainable long-term.

Pyott's rather pointed criticisms seemed to put Valeant on the defensive and underscored his use of a common, but still clever, negotiating maneuver: push up the perceived value of your asset and push down the perceived value of your suitor. Doing so places increased pressure on the acquirer to raise its offer which, after all, is the ultimate goal. Valeant responded by defending its business model and providing more transparency to investors on its financials. Pershing Square, as Allergan's largest shareholder, used its influence to gather shareholder support and force Allergan's board to call for a special meeting in December at which Pershing would propose to remove six current Allergan board members and replace them with six of its own nominees.

Valeant even announced an exchange offer in May of 2014 in an attempt to bypass Allergan's board and take their proposal directly to shareholders for a vote, a tactic that would require removing the company's poison pill.[6]

Exhibit 4



All of this was great theater but one issue we needed to contend with was what to do with our position in Allergan, which by June 2014 was nearly a 9% weight in our portfolio. Clients repeatedly inquired if we were preparing to trim our weight in the stock. They asked if we were concerned what would happen if the deal fell through and Valeant walked away. Wouldn't Allergan's stock plummet back to where it was before the offer was announced in April? While these concerns were certainly legitimate, Dan and Damon were steadfast in their belief that the risk/reward was still very much skewed in our clients' favor. Their argument was that Allergan's increased guidance helped put a floor under the stock as the company's earnings power was now more evident.

Furthermore, based on Allergan's 2015 EPS guidance of roughly $8.50 and assuming a historically average multiple for the stock of 23x, the implied fair value for the company was nearly $200/share. Thus, Valeant's various bids appeared to offer little in the way of a true premium to our reasonable assessment of intrinsic value for the business. In Dan and Damon's estimation, a higher offer was likely. Indeed, when Actavis announced in November that Allergan had agreed to an offer valued at $219/share there was a feeling of bittersweet satisfaction. The premium we sought for our clients was finally achieved though at the cost of losing one of the best businesses that we had ever owned.

POST-MORTEM

We maintained our significant weighting in Allergan until December of 2014. By this time the stock was at $211 per share and a 10% weight in our portfolio. At this price it was a 6.5% discount to the announced offer price and with the risk/reward now more balanced, and a higher offer much less likely, the prudent course of action was to begin trimming our holding. Actavis, similar to Valeant, was a fast growing pharmaceutical company that had been on an aggressive acquisition spree. Traditionally it had focused on generic medicines but was now beginning to branch out to the branded space as well. Prior to acquiring Allergan, the company had purchased drug maker Forest Labs for $23bn in early 2014. Also similar to Valeant, this acquisition binge had caused the company's debt to balloon to levels that we felt were not appropriate for our portfolio. Thus by February of 2015, with no intention of holding Actavis stock and the remaining premium to the closing of the deal in March at only 3%, we sold our remaining stake in Allergan at $226/share.

All told, since our initial purchase in 2008 Allergan stock delivered to our clients an annualized total return of 32%. Over that same time period the business grew its adjusted EPS at about 21% per annum. It's this last statistic that is perhaps the most pertinent one. Ultimately, the majority of Allergan's return during our holding period was propelled by the company's underlying earnings growth with the remainder driven by P/E multiple expansion. We expect that this would hold true for all of our investments. That is, for the majority (if not all) of the total investment return to be driven by earnings growth with multiple expansion and dividend yield being more modest contributors. Our long-term approach remains the same: identify well-run businesses with sustainable competitive advantages, high returns on capital, above average earnings and free cash flow growth, rock-solid balance sheets and strong secular tailwinds. We believe focusing on just a handful of these most exceptional companies leads to the best investment outcomes for our clients.

Endnotes

1. Allergan's ophthalmic franchise consisted of prescription treatments for glaucoma and dry eye as well as OTC eye care products such as Refresh.

2. By 2006, Botox was approved for a wide range of neuromuscular disorders such as blepharospasm (eyelid spams), strabismus (cross-eyed) and hyperhidrosis (excessive underarm sweating). About half of Botox's sales were therapeutic with the other half being cosmetic.

3. Botox was not approved for cerebral palsy but was sometimes used off-label to help control spasms.

4. Those three drugs were Lucentis and Avastin (Roche) and Eylea (Regeneron)

5. Though not a good fit for us, Valeant has proven to be a highly successful investment and we hold the company's largest shareholder, Ruane, Cunniff & Goldfarb, in high esteem. As of 12/31/2014 VRX's 10-year annualized total return was nearly 30% compared to 8% for the S&P 500. Source: Factset.

6. Immediately after the Valeant offer was announced, Allergan's board adopted a poison pill that effectively blocked any shareholder from acquiring more than a 10% stake in the company. The only practical way of removing this poison pill was to vote in new board members who would be supportive of such action. In order to change board members, one would need votes from a majority of the shareholder base. Hence, garnering at least 50% of shareholders' support was a critical goal for Valeant and Pershing Square.

About the Author

Stephen Atkins, CFA, Research Analyst, joined Polen Capital in 2012 after a 12-year tenure as a portfolio manager at Northern Trust investments—including eight years as a mutual fund co-portfolio manager. Mr. Atkins also spent two years at Carl Domino Associates, LP. He received his B.S. in Business Administration from Georgetown University and a General Course degree from the London School of Economics. Mr. Atkins is a CFA Charterholder and a member of the CFA Institute and CFA Society of South Florida.

About Polen Capital

Polen Capital is an independently-owned Growth equity boutique that is managed and run by an experienced and thoughtful group of financial professionals who are focused on our disciplined Investment Strategy.

At Polen Capital, we believe that consistent earnings growth is the primary driver of intrinsic value and long-term stock appreciation. Our efforts focus on identifying and investing in a concentrated portfolio of high quality companies that we believe are capable of delivering sustainable, above-average earnings growth. By thinking and investing like a business owner and taking a long-term investment approach, we believe we can preserve capital and provide stability in volatile markets.

Our Strategy is accessible through our Mutual Fund, Separately Managed Accounts (SMAs) and Undertakings for the Collective Investment of Transferable Securities (UCITS).

Institutional Relations
+ 1-800-358-1887
Institutionalrelations@polencapital.com

1825 NW Corporate Blvd. Suite 300, Boca Raton, FL 33431
www.polencapital.com