Seeking Alpha α

**Transcripts** | **Healthcare**

# Perrigo Company plc (PRGO) CEO Murray Kessler on Q3 2019 Results - Earnings Call Transcript

Nov. 6, 2019 1:11 PM ET1 comment

by: SA Transcripts

Q3: 11-06-19 Earnings Summary

*Press Release*

EPS of $1.04 beats by $0.10 | Revenue of $1.2B (5.77% Y/Y) misses by $-0.09M

---

## Earning Call Audio

Subscribers Only

00:00 -38:10

Perrigo Company plc (NYSE:PRGO) Q3 2019 Results Earnings Conference Call November 6, 2019 8:00 AM ET

**Company Participants**

Bradley Joseph - Vice President, Investor Relations

Murray Kessler - President and Chief Executive Officer

Raymond Silcock - Executive Vice President and Chief Financial Officer

**Conference Call Participants**

Ashley Ryu - RBC Capital Markets

Ami Fadia - SVB Leerink

Gregg Gilbert - SunTrust Robinson Humphrey

Zhu Shen Ng - Morgan Stanley

Iris Zhilin Long - Berenberg Capital Markets

**Operator**

Good day, and welcome to the Perrigo Third Quarter 2019 Financial Results Conference Call. All participants are in a listen-only mode. [Operator Instructions]. Please note this event is being recorded.

I would now like to turn the conference over to Brad Joseph, Vice President of Investor Relations. Please go ahead.

**Bradley Joseph**

Thank you. Good morning and welcome, everyone, to Perrigo's third quarter 2019 earnings conference call. I hope you all had a chance to review the press release we issued earlier this morning. A copy of the release is available on the perrigo.com website.

Joining today's call are President and CEO, Murray Kessler, and CFO, Ray Silcock.

I'd like to remind everyone that, during this call, participants will make forward-looking statements. Please refer to the important information for shareholders and investors and safe harbor language regarding these statements in our press release issued earlier this morning.

When discussing the business, Murray will reference only non-GAAP adjusted numbers for the quarter. Comparisons to prior year will also exclude exited businesses and currency changes. Ray's discussion of financial results during this call will address both GAAP and non-GAAP results and, where noted, comparisons to prior year will exclude exited businesses and currency changes.

Located on our website is the appendix for today's call which provides reconciliations for all non-GAAP financial measures discussed.

A couple of other housekeeping notes to mention before we get started. Excluding exited businesses excludes contributions from the exited animal health and infant foods businesses from both 2018 and 2019. Organic growth excludes Ranir, the exited animal health and infant food businesses and currency.

And as a reminder, worldwide consumer includes the Consumer Self-Care Americas and Consumer Self-Care International segments as well as corporate unallocated.

One final note, given Ranir's global reach, the company has finalized operational reporting lines where the US operations of Ranir are included in the Consumer Self-Care Americas market segment and its non-US operations are included in the Consumer Self-Care International segment.

And with that, I'd like to turn the call over to Murray.

**Murray Kessler**

Good morning, everyone. I'm pleased with the company's third quarter results. And it's worth noting that this is the first time I've said that about a quarter even though this is the fourth quarter in a row that our results have met or exceeded expectations.

What differentiates this quarter is that our top line is growing again as many of the initiatives we implemented as part of our strategic plan are beginning to take effect. And while a meaningful portion of this quarter's double-digit growth is due to the bolt-on acquisition of Ranir, the organic growth results were also solid.

Really, the company hit on almost all cylinders from a revenue perspective with one exception – infant nutrition, which was explained last quarter and which will be further detailed in a moment.

Cost control also benefited the company's results as we enjoyed overhead savings from project momentum.

All in all, I like the direction we are headed. We are executing well and I believe we are on track to achieve our stated 3/5/7 long-term consumer growth objective.

Let me go into a bit more detail. Total Perrigo consolidated net sales grew just over 10% versus year ago. All segments contributed to this growth, including a 9% increase in Consumer Self-Care Americas, a 10% increase in Consumer Self-Care International and a 13% increase in generic Rx.

CSCA net sales growth of 9% was led by the incremental addition of US ruxolitinib sales of $54 million and an increase of 3% or $13 million of organic net sales growth on our OTC business.

From a consumption basis, OTC category growth remained strong, growing 2% in revenue during the third quarter versus year ago, according to IRI.

For the same period, store brand retail dollars grew 2.8%, outpacing national brand growth of 1.6%, which was a 30 basis point share gain for store brand. OTC share gains were driven by solid growth in our allergy and smoking cessation categories.

What most excites me here, beyond the growth, is the renewed purpose with which Perrigo teams are attacking and winning in our core categories.

Solid organic OTC growth was partially offset by an 11% decline versus year-ago in our infant nutrition business. The infant nutrition performance during the quarter was as expected and as explained in last quarter's conference call.

Remember, the second quarter infant nutrition results were hurt by a contract packing inventory issue and retail disruption from a product recall.

Importantly, the retail issue is behind us as the US store brand infant formula business returned to growth in the third quarter, increasing 4% versus year ago. And while the contract pack sales inventory issue continued in Q3, it was expected.

The good news is we're almost through that issue as well. And looking forward, we have a strong pipeline of new infant formula products, many of which are launching as we speak and we have gained distribution at a major new customer. Said another way, we see infant nutrition in total growing again versus year ago in the fourth quarter.

Turning to Consumer Self-Care International, net sales increased 10% versus year ago. While the CSCI results benefited from over $23 million in incremental sales from Ranir, we saw solid organic growth of over 3%. The 3% organic growth in CSCI was driven by $28 million in new product launches and good selling activities for the cough/cold season in Europe.

I'd also note that France, which I highlighted last quarter, is well on its way to being corrected as we now have our sales force back up to full strength and we have a solid pipeline of new products ready to launch early next year.

Finally, our Rx segment continued to perform well and outperformed most generic Rx companies, growing 13% versus year ago in the quarter. It's worth noting we did have service issues related to interruption from several of our key suppliers not meeting their production goals and timeline.

So, in summary, I repeat, it was a solid quarter. Good quality. We still have a lot to do to be able to consistently report this type of growth, but we're heading in the right direction.

Perrigo teams across the world are starting to win again and the teams are energized. And, of course, we all believe we are recapturing the Perrigo advantage and are certain that we will make lives better by bringing quality, affordable self-care products that consumers trust everywhere they're sold.

I'll now turn the call over to Ray.

**Raymond Silcock**

Thank you, Murray. And good morning, everyone. Now that Murray has gone through the sales highlights for the quarter, I'd like to walk you through the rest of the Q3 P&L, briefly focus on the balance sheet and provide some color and commentary on our outlook for the rest of 2019.

Consolidated reported net income for Q3 was $92 million and reported diluted EPS was $0.67 per share, which included an $18 million or $0.11 charge for our voluntary retail market recall of ranitidine, the cost of which was removed from our adjusted net income for the quarter.

Consolidated adjusted net income for the quarter was $142 million and adjusted EPS was a $1.04 per share, up $0.11 from Wall Street consensus, our third sequential quarterly earnings beat and our fourth sequential quarter of meeting or exceeding market expectations.

Adjusted net income includes $50 million of non-GAAP adjustments. We're adding back $81 million of amortization, $18 million related to the acquisition of Ranir, $18 million from the ranitidine recall, an $11 million impairment of Evamist, an Rx brand, and $17 million of restructuring, business separation and unusual litigation. And then, we're subtracting the $72 million gain from the sale of the animal health business together with $31 million in tax impacts from all of these adjustments.

Our reported consolidated effective tax rate for the quarter was 5.2%, much lower than in recent quarters, primarily as a result of the tax loss that arose from the sale of the animal health business despite the fact that we have a $72 million book gain.

Since we excluded that gain from our adjusted results, we have eliminated the associated tax impact as well. This increased Q3 effective tax rate from a GAAP rate of 5.2% to a non-GAAP effective tax rate of 20.1%. Details of all these adjustments can be found in the non-GAAP reconciliation table attached to this morning's press release.

From this point forward, all my comments and numbers are on a non-GAAP basis.

Moving now to segment reporting, I'm going to start by reviewing the results of our worldwide consumer business, which is comprised of the Consumer Self-Care Americas segment, the Consumer Self-Care International segment and corporate unallocated, followed by the results of the two segments individually. I'll discuss the RX segment afterwards.

Worldwide consumer adjusted gross profit as compared to last year was up $12 million to $392 million, which amounted to an increase of 9% on a constant currency basis when exited businesses are excluded from the 2018 comp.

In the Americas segment, adjusted gross profit versus last year increased by $10 million to $210 million. Strong performances within the US OTC business and the addition of Ranir were partially offset by lower infant formula contract business and higher direct labor costs.

Adjusted gross margin improved 40 basis points to 34% as favorable OTC product mix in the quarter was partially offset by the impact of the exited animal health business and higher cost of goods sold.

In the international segment, adjusted gross profit increased by $1 million to $181 million for the quarter. Measured in constant currency, adjusted gross profit increased by 6.3%, primarily due to new products and to the addition of Ranir's non-US business, partially offset by volume declines including in France.

Third quarter adjusted gross margin was 51.9%, 190 basis points lower than last year primarily due to the addition of Ranir which has a lower gross margin than our overall international portfolio. It should be noted, however, that this gross margin impact does not fall through to operating margin since Ranir has lower operating expenses as a percent of sales than the rest of international.

Moving on to adjusted operating income, worldwide consumer business adjusted operating income was up $2 million to $153 million as the benefit of adding Ranir was mainly offset by the cost of restoring employee bonuses as compared to last year's Q3. Further adjusting for the impacts of currency and exited businesses, it was up 4.3% in the quarter.

In the Americas segment, adjusted operating income was up $5 million to $123 million, with an adjusted operating margin of 19.8%, the same as in Q3 last year, up 4.8% when exited businesses are excluded. Increased gross margin and lower admin costs were partially offset by higher R&D spending to drive innovation.

In the international segment, adjusted operating income was flat to prior year at $64 million. Further adjusted for currency, it was 4.4% better than last year.

The adjusted operating margin was down 100 basis points to 18.2% due primarily to higher SG&A.

Turning out to the Rx segment, adjusted gross profit decreased by $3 million to $94 million and adjusted gross margin of 40.9% was down from 48.1% in Q3 last year due to adverse pricing, higher cost of goods primarily as a result of our third-party suppliers' inability to meet our demand and less favorable product mix.

Adjusted operating income was lower by $2 million to $55 million, principally due to the gross profit decline and higher SG&A, somewhat offset by lower R&D expenses.

In summary then, consolidated adjusted earnings per share in Q3 was $1.04, up $0.11 from Wall Street expectations, our fourth consecutive quarter of meeting or beating consensus.

Consolidated adjusted operating income was flat to Q3 last year as the benefits from the Ranir acquisition and savings from project momentum, our SG&A cost-reduction initiative were offset by the restoration of full employee bonus payout that we expect this year and temporary headwinds in our infant nutrition business.

With respect to the balance sheet, as of September 28, 2019, total cash on the balance sheet was $399 million and total outstanding debt was $3.4 billion.

This quarter, we successfully refinanced our 2020 term loan, extending its maturity to 2022 and lowering the interest rate by 65 basis points.

Q3's cash flow from operations was $140 million, a cash flow conversion of almost 100%. We expect to maintain that cash conversion in the 100% range in the fourth quarter.

And now, turning to our third quarter Q. As you'll see when you read it, we received a draft notice of proposed adjustment, a draft NOPA from the IRS covering fiscal tax years ending June 28, 2014 and June 27, 2015.

The draft NOPA relates to the deductibility of interest on debts owed by – owed to Perrigo Company plc by Perrigo Company, a US sub. The debts were incurred in connection with the merger with Élan in 2013.

The draft NOPA proposes a reduction in gross interest expense for fiscal years 2014 and 2015, details of which you may read in the Q. Were the IRS to prevail in this proposed adjustment, which we intend to contest strongly, we estimate an increase in tax expense of approximately $170 million excluding interest and penalties.

In addition, we would expect the IRS to seek similar adjustments for the periods from June 28, 2015 through December 31, 2019. We estimate that those further adjustments based on our preliminary calculations will not likely exceed an additional $200 million excluding potential interest and penalties.

We would not usually disclose a draft NOPA at this stage, but would wait for the final, which for this specific NOPA we expect later this month. However, since the IRS has recently made it clear to us that they plan to issue the NOPA without taking into account our submission to them in which we requested they make changes prior to issuing the final NOPA, we decided to include the disclosure of it in this quarter's Q.

No payment of any amount related to the proposed adjustments is required to be made if at all until all applicable proceedings have been completed.

Turning now to our outlook for 2019. Some of the assumptions incorporated into our guidance include, within the Americas segment, our new oral self-care category will continue to drive topline growth; our infant nutrition business is expected to return to growth in the fourth quarter, mainly due to a large new customer; our OTC business remains strong and is already shipping cough/cold product to retailers and we're assuming a normal season.

For international, we remain excited about the new product pipeline which we anticipate will continue to drive topline growth in Q4.

For Rx, while we don't expect to see the trend change, we remind you that we are comparing to a very strong Q4 last year, which included a high margin exclusive product launch.

In summary, based on these assumptions, we are raising our 2019 adjusted EPS guidance to $3.85 to $4.05 a share.

And with that, I would like to turn the call back to Murray.

**Murray Kessler**

Thanks, Ray. So, to sum up my thoughts on the quarter and the outlook for the rest of the year. Our worldwide consumer businesses continue to gain momentum and I'm excited about the future. We've raised our 2019 adjusted EPS guidance, which reflects the strength of worldwide consumer businesses expected to continue in the fourth quarter and earlier-than-anticipated project momentum savings, offsetting mix and supply issues in Rx.

Operator, we'll now take questions.

**Question-and-Answer Session**

**Operator**

We will now begin the question-and-answer session. [Operator Instructions]. The first question comes from Randall Stanicky with RBC Capital Markets.

**Murray Kessler**

Hey, Randall.

**Ashley Ryu**

Hi, good morning. This is actually Ashley Ryu on for Randall. Murray, can you talk a little bit about the organic growth rate that you saw in CSCA in the quarter and what your expectation is for the balance of the year? New launches were again fairly light in the quarter. So, if you could just talk about your expectations there as well. I know, for Ranir, it will take some time to ramp up, but I'm talking kind of outside of that and when we should expect that pickup.

**Murray Kessler**

You don't need to expect to see a pickup. It's already strong. As I went through in the detail of my comments, your OTC business, which is the lion's share of our business, was up over 3% in the quarter. And I believe that was the same in the last quarter and I shared that consumer takeaway was strong with that. And likewise, that our retail infant formula business in the US, which is the biggest, most important part of that nutrition business, was up 4%.

The only issue that makes it look like, organic growth isn't as strong as the infant formula contract business that I highlighted. From a new product standpoint, you should feel very encouraged that with a light quarter and new product sales in CSCA that we got those kind of growth rates which means that we're obviously building our business and doing a better job with consumer and partnering and getting distribution gains, et cetera.

For the fourth quarter, as I said, I expect the total infant nutrition business to be up and be a driver of the total growth for the quarter. So, we won't be looking at anymore declines on infant nutrition as they have a very strong new products quarter starting out, launches that are in place and that are imminently shipping. So, those are not like promises to happen. That's about to really happen. So, I feel very, very good about the organic growth across the whole company.

**Ashley Ryu**

Okay. Sorry, just to clarify, when should we expect to see new launches pick up, not the business. And then also, I know there's a lot of moving pieces, but just on a more housekeeping note, can you just touch on the recall which I know you've adjusted out of revenue and gross profit? Can you just kind of talk about that gross profit adjustment? Thanks.

**Murray Kessler**

Well, I believe – what was the number, Ray, for the total…

**Raymond Silcock**

$18 million in covering the US and Europe.

**Murray Kessler**

Right. And that $18 million was a combination of bringing back inventory from wholesalers. It wasn't a consumer recall and any inventory that we had on hand and any raw ingredients or materials that were there. So, that's everything involved with the recall. We didn't adjust for any loss of sales. In fact, I'm not sure in the US we'll see any loss of sales because consumers will gravitate to other products. But this was not something unique to Perrigo. It was worldwide and industry-wide and there's been a lot of clarity provided actually in the last couple of days on that by the FDA.

**Ashley Ryu**

Great.

**Murray Kessler**

As far as new products go, I'm not going to speak to future new product launch. That's competitive. It's my job to get to the 3/5/7 numbers I have promised everywhere and I have many tools in my toolbox to do that.

New products is a key component of it. As a company, we actually had a good quarter new product wise. So, it was more driven by CSCI, but I'm really not going to dissect it down by division, by brand. That's what you're paying me for.

**Ashley Ryu**

Got it. Thanks.

**Raymond Silcock**

Thanks, Ashley. Next question please.

**Operator**

Our next question comes from Ami Fadia with SVB Leerink.

**Raymond Silcock**

Good morning. Ami?

**Operator**

Ami, your line is open.

**Ami Fadia**

Hi, good morning. Can you hear me okay?

**Raymond Silcock**

Yes.

**Ami Fadia**

Okay. Sorry about that. Can you talk to – just on Zantac, are there expectations for additional recalls into second quarter? And can you talk about any additional impact that you might have baked in in your sort of guidance update into fourth quarter for this year? And then, I have another question.

**Murray Kessler**

We don't expect it to – the FDA already tested all the other products in the GI category, and said they were clear. And this wasn't – we built a reserve for it. So, it's an estimate. The only way it would vary, Ray, if it was – so it came in a little more or little less, but…

**Raymond Silcock**

There'll be some sort of true-up, but we estimated we think pretty accurately

**Murray Kessler**

What the total impact.

**Raymond Silcock**

Yeah, the total impact.

**Ami Fadia**

Got it. Now, with regards to the infant formula, you talked about some of the moving parts this quarter, but as we think about the contractual win earlier this year, and once we sort of stabilize, how should we think about the run rate for this business as we maybe exit 2019 and think about 2020?

**Murray Kessler**

Infant nutrition has been a winner for Perrigo for years. It had a pickup this summer. A couple of things all went wrong on it at the same time. But I expect it to return back to good solid growth this year and next year. It has – while I don't want to be real specific, I guess I can on these because they're already launched to customers. We have two major new product launches that have already hit the marketplace, one of which begins shipping imminently, like within days, that have been worked on for 10 years. They are major new products for that segment. So, I'm not going to give you specifics on what growth rate I expect for infant formula next year. We'll do that along with all of our sort of estimates of how we see the next year shaping up when I get to the major conferences in January. I'll give you a score card review of how I think we do across the board on all of our businesses and all of our initiatives and where I see the direction going and guidance for the coming year like normal. But I'm bullish on infant formula. It was a hiccup. I think it's corrected.

**Ami Fadia**

Thank you.

**Raymond Silcock**

Thanks Ami.

**Operator**

Our next comes from Gregg Gilbert with SunTrust.

**Gregg Gilbert**

Thanks. Good morning.

**Murray Kessler**

Good morning.

**Gregg Gilbert**

Good morning. What can you say about the timeline and process to separate the Rx business? And then I have another question business? And then I have another question.

**Murray Kessler**

No update from last quarter. As I told you, we continue to prepare for it and we continue to evaluate it, but we'll do it when we can maximize value for shareholders. I'm not going to be dumb about it. And it's still a pretty volatile market with what's been going on externally and in the environment in that whole industry.

So, right now, I'm thrilled with the way they've stabilized the business, the leadership's super and still we're focused on our consumer mission and we're trying to be very transparent with the consumer numbers and giving you worldwide consumer numbers that allocate all the overhead, all those things to that, so you can sort of model underneath it, but the answer is we continue to prepare and I'll do it when it's the right time.

**Gregg Gilbert**

Okay. And on the tax front, Ray, can you talk about that the new issue you just raised? You framed the maximum potential, I guess, financial outlay should you not prevail. But can you talk about the implications for the tax rate longer term? And on the Irish front, gentlemen, have you have interacted with the authorities over there at all to better understand their side of the story? Or are we just waiting for the actual process just to move forward with no interaction before then?

**Raymond Silcock**

Yeah. I don't think there's any – based on what we see right now, there's no implication for the longer term tax right from the new NOPA principally because we plan to change the structure because of tax changes in Ireland and the US that have taken place in the last 12 months which render that particular structure inefficient, which is 267A if you're familiar with the tax code in the US.

So, from the most recent NOPA which we do intend to contest very strongly as a technical difference that has been raised by the IRS. We think we have strong grounds on which to win that and we feel that the IRS is in a less strong position than we are. So, I don't see this having an impact on our tax rate going forward.

**Murray Kessler**

As far as the Irish case goes, the update I told you was before, there is briefs that are submitted by both sides going back and forth. But April 29, it holds, is when the judicial review goes. And just to reinforce for everybody on the call, the judicial review is about whether Ireland violated our legitimate expectations based on history to – a company we were buying in Élan was doing things properly, which we believe they did and every adviser that I've had look at this tells me that they did. We're not having debate yet on the merits of the tax assessment at all. That's what happen afterwards.

As it relates to the briefs and all that, I don't think there's any surprises that we've seen so far. So, we're steady as you go as we head towards April.

**Gregg Gilbert**

Sorry, one last one, Murray. You sounded pleased with the organic growth of the business and how things are going operationally. So, on the M&A front, what's your appetite and flexibility to do another Ranir-like deal in the near to intermediate term or should we think smaller? Thanks.

**Murray Kessler**

Well, I think Ranir is probably, based on sort of the cash flow of the company and the debt leverage we're trying to get to, would be sort of the high side of where we're going. But I do have an appetite for continued bolt-on M&A. There were two slides I presented on May 9. As I've gone to investor meetings around the country, everybody seems to get. What it looked like when we're winning, what it looked like when we stop winning. And when it looks like when we were winning, there was a certain level of bolt-on M&A that was – I don't have the number right in front of me and there was a certain level of innovation that offset downward pricing pressure. And we are now, in the current quarter, exceeding that. That's why the total growth is you're seeing double-digit growth on an apples-to-apples basis and I expect that to continue as we roll in Ranir. But on the longer term, I'm still holding true to the growth rates that I've said of the 3/5/7. to supplement above and beyond that, I'm going to go after bolt-on opportunities that give us repeatable growth platforms.

**Gregg Gilbert**

Thank you.

**Raymond Silcock**

Thanks Gregg.

**Operator**

Our next question comes from David Risinger with Morgan Stanley.

**Zhu Shen Ng**

Hi there. It's Zhu Shen Ng here for David Risinger. I have a couple of questions. First, could you please comment on the updated guidance, specifically implications for 4Q consensus modeling? And the second is, what is the outlook for Rx pipeline launches? Thank you

**Murray Kessler**

The consensus is the new midpoint is…

**Bradley Joseph**

The new midpoint of our adjusted EPS range is basically in line with where consensus is.

**Murray Kessler**

Okay. So, there you go. You heard it from Brad. The new midpoint that we've raised and that goes in line with consensus as we speak. And you saw where the – Ray detailed where that was coming from.

As it relates to Rx new products, other than to tell you that I think we have a robust new product pipeline excluding ProAir for next year, I'm not going to tell you when and what products we have coming. It obviously would be sort of competitive disadvantage to share that. But we have a robust product pipeline coming.

**Raymond Silcock**

Thank you. Shen. Next question please

Thank you, Cheri. Next question please.

**Operator**

Our next question comes from Patrick Trucchio with Berenberg Capital Markets.

**Q – IrisZhilin Long**

Hi, good morning. This is Iris Long on for Patrick. Just a question regarding the consolidation of R&D and the impact on new product development. So, we know that the focus is on driving new products and we do see the strong growth in international as well as the progress in the Americas business. Can you briefly discuss how the consolidation of R&D is aiding in the development of new products? And to the extent that you can tell us, which new product or which category should we look for contributions of new products over the next year? Thanks.

**Murray Kessler**

Well, the first half of the question, I really like because I do believe that the consolidation of R&D is really helping to ramp up our program faster than I thought. When I go to do investor – like when I started in early following May 9, everyone – or before May 9, everybody sort of questioned whether we – what was self-care and could you do bolt-ons. And then, after May 9, when they saw Ranir and then [indiscernible] a few months later. As I've done further investor calls, everybody said, okay, I believe you now on bolt-ons, but how will innovation ramp up. And innovation is ramping up significantly. And a large part of that is that team is working together and sharing ideas and work that's been accomplished and completed across the world, not only from Europe CSCI back to CSCA, but also from region to region in Europe. As an example, taking winning skin care products in the Nordic regions and launching them under existing brand names and in other parts of Western Europe as another example.

So you're really seeing like hundreds of ideas. I quoted the number of a half a billion plus in new products, that number is growing. And when I go out in my January call going forward, I'm going to spend a lot of time on innovation to share how we see that growing because I think that's the next question. I know you can do bolt-ons, can you innovate?0 And it's already starting to happen. So, which is great news, A lot of it faster than I thought.

Some of it still will take a couple years. Am I going to give you specific categories? No. It's almost going to be a mindset across the business. You should expect innovation across all of our businesses in the coming year.

What was the second part of your question?

**Raymond Silcock**

Any kind of specific categories where the contribution from new products might come from?

**Murray Kessler**

Yeah, I'm not going to go specific other than the one I already told you. I will expect infant formula which has two major launches that they've been working on, which is the result of 10 years' worth of work, to have a significant contribution – outsized contribution from new products in the coming year.

And the other thing that I would like to do, which most good consumer products companies do, is start communicating once I have a little bit more data about what I'll describe and is commonly known in the consumer world as a freshness index, which will not just talk about what kind of new products we launched in the year, but will talk about the percentage of our volume coming from either new products or some form of significant innovation or product improvement within the last three years, which as a company, great companies tend to operate in the 15% to 20% rate. That will take us little time to get there, but that's a really good measure of stickiness of new products and whether the company is innovating at the right amount or too much and there is a lot of statistical work by some really good consultants doing industry benchmark and to say that's the right number to target. I'll share that more in January when I get there as well, but we're gathering all that data as we speak. And again, I like where the company is going organically. I like where we're going on bolt-on. I like the energy I see in the team.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Murray Kessler for any closing remarks.

over to Murray Kessler for any closing remarks.

**Murray Kessler**

Well, I think I just kind of gave you my closing remark on my last little speech there, but I think – listen, I've been here for a year now. We've delivered. We're getting more consistent which was the goal for – that most of us were pushing on. But this is the first quarter I could stand up here and be proud that the growth numbers were starting to come as we were working towards. So, this was our best quality quarter since I have been here so far.

And I know we have those other issues and overhang issues and we will work through those and we'll manage those to the best interest of shareholders. And I appreciate your interest in Perrigo.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.