

Horizon Pharma plc
Form 10-Q
November 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 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 001-35238

HORIZON PHARMA PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

Ireland
(State or other jurisdiction

Not Applicable
(I.R.S. Employer

of incorporation or organization)

Identification No.)

Connaught House, 1st Floor

1 Burlington Road, Dublin 4, D04 C5Y6, Ireland Not Applicable

Edgar Filing: Horizon Pharma plc - Form 10-Q

(Address of principal executive offices)

(Zip Code)

011 353 1 772 2100

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth 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 Exchange Act). Yes No

Number of registrant's ordinary shares, nominal value \$0.0001, outstanding as of October 26, 2018: 167,625,915.

HORIZON PHARMA PLC

INDEX

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	1
<u>Condensed Consolidated Balance Sheets as of September 30, 2018 and as of December 31, 2017</u>	
<u>(Unaudited)</u>	1
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months</u>	
<u>Ended September 30, 2018 and 2017 (Unaudited)</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018</u>	
<u>and 2017 (Unaudited)</u>	3
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	5
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	34
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	50
Item 4. <u>Controls and Procedures</u>	51
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	52
Item 1A. <u>Risk Factors</u>	52
Item 6. <u>Exhibits</u>	96
<u>Signatures</u>	99

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HORIZON PHARMA PLC

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands, except share data)

	As of September 30, 2018	As of December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 807,047	\$ 751,368
Restricted cash	6,399	6,529
Accounts receivable, net	391,117	405,214
Inventories, net	53,130	61,655
Prepaid expenses and other current assets	81,492	43,402
Total current assets	1,339,185	1,268,168
Property and equipment, net	16,592	20,405
Developed technology, net	2,204,633	2,443,949
Other intangible assets, net	4,835	5,441
Goodwill	426,441	426,441
Deferred tax assets, net	231	3,470
Other assets	27,469	36,081
Total assets	\$ 4,019,386	\$ 4,203,955
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Long-term debt—current portion	\$ —	\$ 10,625
Accounts payable	64,794	34,681
Accrued expenses	194,855	175,697
Accrued trade discounts and rebates	359,660	501,753
Accrued royalties—current portion	65,501	65,328
Deferred revenues—current portion	6,759	6,885
Total current liabilities	691,569	794,969
LONG-TERM LIABILITIES:		
Exchangeable notes, net	327,573	314,384
Long-term debt, net of current	1,563,239	1,576,646
Accrued royalties, net of current	295,122	291,185
Deferred revenues, net of current	—	9,713
Deferred tax liabilities, net	156,848	157,945
Other long-term liabilities	68,174	68,015
Total long-term liabilities	2,410,956	2,417,888
COMMITMENTS AND CONTINGENCIES		

SHAREHOLDERS' EQUITY:

Ordinary shares, \$0.0001 nominal value; 300,000,000 shares authorized;

167,907,117 and 164,785,083 shares issued at September 30, 2018 and December

31, 2017, respectively, and 167,522,751 and 164,400,717 shares outstanding at

September 30, 2018 and December 31, 2017, respectively	17	16
Treasury stock, 384,366 ordinary shares at September 30, 2018 and December 31, 2017	(4,585)	(4,585)
Additional paid-in capital	2,337,565	2,248,979
Accumulated other comprehensive loss	(1,261)	(983)
Accumulated deficit	(1,414,875)	(1,252,329)
Total shareholders' equity	916,861	991,098
Total liabilities and shareholders' equity	\$ 4,019,386	\$ 4,203,955

The accompanying notes are an integral part of these condensed consolidated financial statements.

HORIZON PHARMA PLC

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(In thousands, except share and per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$325,311	\$271,646	\$852,027	\$782,012
Cost of goods sold	99,011	125,517	315,185	394,783
Gross profit	226,300	146,129	536,842	387,229
OPERATING EXPENSES:				
Research and development	21,169	17,928	63,079	194,090
Selling, general and administrative	161,585	153,952	517,858	487,670
Impairment of long-lived assets	1,603	—	39,455	22,270
Gain on sale of assets	(12,303)	—	(12,303)	—
Total operating expenses	172,054	171,880	608,089	704,030
Operating income (loss)	54,246	(25,751)	(71,247)	(316,801)
OTHER EXPENSE, NET:				
Interest expense, net	(30,437)	(31,706)	(91,921)	(95,297)
Foreign exchange gain (loss)	35	275	(81)	167
Gain on divestiture	—	112	—	5,968
Loss on debt extinguishment	—	—	—	(533)
Other income, net	453	280	978	280
Total other expense, net	(29,949)	(31,039)	(91,024)	(89,415)
Income (loss) before (benefit) expense for income taxes	24,297	(56,790)	(162,271)	(406,216)
(Benefit) expense for income taxes	(1,733)	7,181	1,863	(42,138)
Net income (loss)	\$26,030	\$(63,971)	\$(164,134)	\$(364,078)
Net income (loss) per ordinary share—basic	\$0.16	\$(0.39)	\$(0.99)	\$(2.24)
Weighted average ordinary shares outstanding—basic	167,047,104	163,447,208	166,018,603	162,810,551
Net income (loss) per ordinary share—diluted	\$0.15	\$(0.39)	\$(0.99)	\$(2.24)
Weighted average ordinary shares outstanding—diluted	172,485,757	163,447,208	166,018,603	162,810,551
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX				
Foreign currency translation adjustments	\$(133)	\$(209)	\$(567)	\$745
Pension remeasurements	—	—	289	—
Other comprehensive (loss) income	(133)	(209)	(278)	745
Comprehensive income (loss)	\$25,897	\$(64,180)	\$(164,412)	\$(363,333)

The accompanying notes are an integral part of these condensed consolidated financial statements.

HORIZON PHARMA PLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)

	For the Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(164,134)	\$(364,078)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization expense	206,696	213,155
Equity-settled share-based compensation	86,981	91,391
Royalty accretion	44,371	38,415
Royalty liability remeasurement	(2,151)	(2,944)
Impairment of long-lived assets	39,455	22,270
Amortization of debt discount and deferred financing costs	16,879	15,863
Deferred income taxes	1,645	(62,989)
Gain on sale of assets	(12,303)	—
Gain on divestiture	—	(2,635)
Acquired in-process research and development expense	—	148,769
Loss on debt extinguishment	—	533
Foreign exchange and other adjustments	243	(1,521)
Changes in operating assets and liabilities:		
Accounts receivable	14,060	(101,612)
Inventories	7,902	83,482
Prepaid expenses and other current assets	(35,526)	(4,435)
Accounts payable	30,119	(18,414)
Accrued trade discounts and rebates	(142,164)	139,461
Accrued expenses and accrued royalties	(6,299)	(42,842)
Deferred revenues	1,462	3,770
Other non-current assets and liabilities	(1,401)	(14,559)
Net cash provided by operating activities	85,835	141,080
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment related to license agreement	(12,000)	—
Proceeds from sale of assets	9,424	—
Proceeds from divestiture, net of cash divested	—	69,072
Payments for acquisitions, net of cash acquired	—	(168,818)
Purchases of property and equipment	(881)	(4,028)
Net cash used in investing activities	(3,457)	(103,774)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of term loans	(27,723)	(774,875)
Net proceeds from term loans	—	847,768
Proceeds from the issuance of ordinary shares in connection with warrant exercises	—	1,789
Proceeds from the issuance of ordinary shares through ESPP programs	4,711	3,856
Proceeds from the issuance of ordinary shares in connection with stock option exercises	9,753	1,762
Payment of employee withholding taxes relating to share-based awards	(12,882)	(5,640)
Repurchase of ordinary shares	—	(992)

Edgar Filing: Horizon Pharma plc - Form 10-Q

Net cash (used in) provided by financing activities	(26,141)	73,668
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(688)	4,366
Net increase in cash, cash equivalents and restricted cash	55,549	115,340