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ENDP - Q1 2015 Endo International PLC Earnings Call

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OVERVIEW:

Co. reported 1Q15 revenues of $714m and adjusted diluted EPS from continuing operations of $1.17. Expects 2015 revenue to be $2.9-3.0b, reported or GAAP diluted EPS from continuing operations to be $1.70-1.90 and adjusted diluted EPS from continuing operations to be $4.40-4.60.

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Endo International first-quarter 2015 earnings conference call.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Ms. Keri Mattox, Senior Vice President, Investor Relations and Corporate Affairs. Ma'am, please go ahead.

Keri Mattox - *Endo International PLC - SVP of IR & Corporate Affairs*

Thank you. Good morning and thank you for joining us to discuss our first-quarter financial results. With me on today's call are Rajiv De Silva, President and CEO of Endo, and Suky Upadhyay, Chief Financial Officer.

We have prepared a slide presentation to accompany today's webcast, and that presentation is posted online in the Investors section at www.Endo.com. I would like to remind you that any forward-looking statements by Management are covered under the Private Securities Litigation Reform Act of 1995 and Canadian Securities Litigation Act, and are subject to the changes, risks and uncertainties described in today's press release, and in our US and Canadian securities filings.

In addition, during the course of this call we may refer to non-GAAP financial measures that are not prepared in accordance with the accounting principles generally accepted in the United States, and that may be different from non-GAAP financial measures used by other companies. Investors are encouraged review Endo's current report on Form 8-K, furnished with the SEC, for Endo's reasons for including those non-GAAP financial measures in today's earnings announcement. The reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is contained in our earnings press release, issued prior to today's call. With that, I would now like to turn the call over to Rajiv.

Rajiv De Silva - *Endo International PLC - President & CEO*

Thank you, Keri, and good morning everyone. I would like to start by taking a moment to thank our retiring Chief Legal Officer, Caroline Manogue, for her exemplary leadership and contributions during her nearly 15-year tenure at Endo. Caroline has made many profound contributions to the transformation of our Company over her time here, and has truly helped shape Endo into the global specialty-pharmaceutical Company that it is today. Throughout this time, she has always set the standard for acting in the best interest of our employees, customers, patients and shareholders. We wish Caroline continued happiness in the next chapter of her life.

I would also like to welcome our newly appointed Chief Legal Officer, Matthew Maletta, who joined Endo last week. Matt brings to Endo nearly two decades of legal experience in the specialty-pharmaceutical industry and with private law firms, including extensive experience in M&A, corporate, securities, finance, commercial and employment law. Matt joins our team at Endo after most recently serving as Vice President, Associate General Counsel and Corporate Secretary of Allergan. His broad industry experience, significant expertise in M&A and corporate law, and respected leadership skills will be a great addition to our Executive Leadership team.

With that, let me turn to our first-quarter earnings presentation. Thank you for joining us today. I hope that you have all had a chance to review the Company's earnings press release that we issued earlier this morning.

On slide 2, you will see our agenda for today's call. We will start with a review of our recent accomplishments, including our announced acquisition of a portfolio of products from Aspen Holdings to support our International business in South Africa, and follow that with the highlights of our first-quarter 2015 financial results. We will then focus on our full-year 2015 outlook and financial guidance. After our prepared remarks, we look forward to taking your questions.

Moving on to slide 3, we continue to make good progress in addressing our near-term strategic priorities, that we believe will support our objective of becoming a leading global specialty-pharmaceutical Company. First, we are enhancing our operational focus in order to help drive organic growth.

During the first quarter, we largely completed the integration of Auxilium into our US Branded Pharmaceuticals business. The accretion manner of capturing the great majority of the $175 million in synergies that we previously identified is expected to support a focused reinvestment for growth for the remainder of 2015. US Generic Pharmaceuticals delivered strong underlying growth in first-quarter 2015. Generic Valcyte was a highlight among new products, and contributed to double-digit volume growth from the base business.

Second, we continue to sharpen our R&D focus on near-term opportunities. We received a day-74 letter from the FDA regarding our BELBUCA NDA during first quarter, and continue to be encouraged as we move forward with the Agency's review. The FDA has set an action date of October 23, 2015.

More immediately, XIAFLEX has an action date later this week on May 15, for a potential enhancement to the product label that would add an indication for the retrievement of recurrent contractures for Dupuytren's contracture patients. Recurrent effects between 20% to 60% of all Dupuytren's contracture patients. So, like MULTICORD, this could be an important potential expansion of the product's label. And on the late stage development front for XIAFLEX, we continue to expect to initiate additional studies for the treatment of cellulite and adhesive capsulitis of frozen-shoulder syndrome by the end of 2015.

Third, we remain focused on delivering strong and sustainable financial performance. We had a solid first quarter, and are raising our guidance for full-year 2015 adjusted diluted EPS from continuing operations. First-quarter revenues were collectively in line with expectations, and we are

maintaining our full-year 2015 financial guidance for revenue. The relative strength of revenues from our US Generics Pharmaceuticals business in the first quarter was a highlight of the value of our increasingly diversified business.

Moving on to slide 4, this morning, we also announced the acquisition of a portfolio of products in South Africa from Aspen Holdings. This acquisition supports our aspiration to support our International business in attractive emerging markets. This acquisition increases our International revenues, through the addition of approximately 60 branded and generic products in South Africa.

This portfolio is focused on pain, anti-infectives, cardiovascular, and other specialty-therapeutic areas. This acquisition also provides expected future organic growth drivers through the addition of approximately 70 R&D pipeline programs. With respect to the terms, we are acquiring this portfolio for $130 million in cash, and expect the transaction to close in the third quarter of 2015.

This transaction is transformational for our Litha business in South Africa. Upon completion, it will add 60% in incremental revenues to Litha's Pharmaceutical business. The transaction also meets our rigorous financial M&A criteria. We believe the transaction multiple will be less than 10 times EBITDA, based on the expected 2015 portfolio performance and operating synergies that we believe this will deliver within the Litha Group.

Moving to slide 6, you will see that we are reporting $714 million in revenues for the first quarter, up 52% versus prior year, and $1.17 in adjusted diluted earnings per share from continuing operations. Suky will provide more details about our first-quarter results in just a few minutes. While acquisitions contributed to the growth of our revenues, organic growth was also an important contributor. On the next few slides, I will focus on the organic growth drivers in each of our core businesses that we believe demonstrate the underlying strength of our Company.

Moving to slide 7, core products in US Branded Pharmaceuticals delivered underlying sales growth of 11% in the first quarter of 2015, as compared to the fourth quarter of 2014. The underlying growth rate that we would like to focus on in 2015 for US Branded Pharmaceuticals includes Auxilium results on a pro forma basis, and includes 2014 acquisitions, once annualized. And, similar to last year, we exclude sales of LIDODERM and royalties received from Actavis for its generic lidocaine patch for comparison purposes.

One of our expected key long-term growth drivers, XIAFLEX, continues to perform well, and in line with our expectations. I will provide a more in-depth review of XIAFLEX on the next slide. We continue our robust efforts to protect the OPANA ER franchise, including the promotion and development of the product, as well as the vigorous assertion of its intellectual property. We have a meeting scheduled with FDA in June to discuss the next steps in development and labeling.

In addition, we recently concluded a Paragraph IV patent infringement trial in Federal District Court in the southern district of New York. A decision is expected in the near term. The outcome of this lawsuit, however, will not impact the ongoing litigation we initiated in late 2014 in the District of Delaware against these generic competitors, with respect to newly-issued patents covering the product.

Across our broader portfolio, we are focused on building momentum for AVEED and successfully launching NATESTO. The efficiency of our integration of Auxilium has provided the flexibility to invest in our broader portfolio efforts, and to relaunch STENDRA. We believe the opportunity to build momentum for STENDRA, following the addition of the 15 minute onset indication was not fully captured, while our acquisition of Auxilium was still pending. And so, following the deeper dive in the XIAFLEX performance, I will focus on our plans for relaunching STENDRA and providing the market support to drive its growth.

Moving to slide 8, XIAFLEX had a solid first quarter, and remains on track with internal expectations. On a pro forma basis, revenues grew 120% compared to first-quarter 2014 in Peyronie's Disease and Dupuytren's Contracture. We reported sales for the first two months in the first quarter that followed the close of the Auxilium transaction.

However, to help with comparisons to data disclosed by Auxilium in 2014, approximately 12,200 vials of XIAFLEX were shipped from January 1 through March 31, 2015. That is an increase of 114% compared to the same period prior year. Most of that growth is attributable to the launch in Peyronie's Disease, which accounted for 6,300 demand vials. Demand growth in Dupuytren's Contracture was attractive as well, an increased at a low double-digit growth rate, with 5,900 demand vials in first-quarter 2015.

Building on a successful launch to date in Peyronie's Disease, there was continued traction with new patients and certified physicians. Through the end of March, there were approximately 1,900 certified physicians, and 8,100 patients enrolled in our reimbursement programs. In Dupuytren's Contracture, we believe that the MULTICORD indication will continue to support growth in 2015. And, as referenced earlier, we have the near-term potential for a label update that could add an indication for the retrievement of recurrent contractures.

Moving to slide 9, we are investing to relaunch STENDRA, starting in late second quarter. We have engaged a new contract sales organizations, and recently completed training of those associates, and we plan to launch a targeted DTC campaign to build patient and physician awareness. We will seek to restore demand growth for STENDRA to our expectations through these efforts.

These efforts will be important in reducing wholesale inventory levels over time, to bring STENDRA in line with our inventory management agreements. At the wholesale level, our partners typically carry about a month of inventory. Auxilium's initial launch stocking has resulted in higher wholesale inventory levels, which were at approximately two months of wholesale inventory for STENDRA in the channel at the end of first-quarter 2015.

Moving to slide 10, our US Generics business continued to deliver impressive results in the first quarter, with sales of $357 million, delivering 68% growth versus the prior year. First-quarter results benefited from the acquisition of DAVA Pharmaceuticals which closed in August 2014, and the partial-quarter contribution of Boca Pharmacal, which was acquired in February of 2014. Sales of LIDODERM AG were a strong source of new growth, as well.

While growth from these strategic initiatives is attractive, even more impressive was the robust underlying growth of 39% in our US Generics business this quarter. Underlying growth was the product of both volume and price, and we are confident in the double-digit growth rate we expect for this business for the full year. Following the strong start to the year in US Generics, we expect to increase prices on selected products during the second quarter.

We expect these actions to support improved performance in late 2015 and into 2016, following near-term price penalty and shelf-stock adjustments that we will have to recognize in the second quarter. Organic growth drivers are important for each of our businesses, and US Generics we are on track to meet our objective to file six ANDAs in 2015. Our focus and quality is producing very good results, as well. Our Charlotte Tablets facility was inspected by FDA in April, and the result of the inspection was a clean outcome.

Moving to slide 11, we believe that we have a strong set of organic growth drivers in our Generics business. LIDODERM AG continued to be a strong source of new sales for Qualitest, and our AG has approximately 29% share of the overall lidocaine patch market. Late last year, we launched the first generic version of Valcyte available in the US. While a second generic is now available, we have approximately 41% share of this market, and generic Valcyte is performing in line with our expectations as a strong contributor to organic growth.

Hydrocodone-acetaminophen combination products are a leading source of revenue for our Generics business. Our portfolio of combination products with 325 milligrams of acetaminophen made a solid contribution to underlying growth. And in the 300-milligram line, we continued to be the exclusive generic of Vicodin, and enjoy a market share of approximately 66% of prescriptions. Across all strengths, the impact of revenues of the DEA's [resheduling] of hydrocodone from a Class 3 to Class 2 has been in line with our expectations.

Moving to slide 12 our International Pharmaceuticals business performed well, and met our expectations. 2015 remains a transition year for International Pharmaceuticals. From a pro forma perspective, first-quarter sales were lower compared to first-quarter 2014 sales, primarily due to foreign exchange rates and the loss of a few products in the Paladin portfolio, due to changing control provisions triggered by the acquisition by Endo. These results are in line with our expectations, and we remain focused on optimizing the base business and expanding our strategic options.

The base Paladin business delivered a solid performance, and Paladin's business development efforts are progressing at a similar pace to historical levels. Paladin is also preparing to submit BELBUCA to Health Canada during the third-quarter 2015 for potential approval and use in Canada. Somar, our Mexican business, is now fully indicated into Endo, and is delivering results in line with expectations. Efforts to qualify Somar as a source of lower-cost manufacturing for the US Generics business is also currently progressing on track. Products have been identified for tech transfer, and we expect to progress towards an eventual FDA inspection of the Somar facility, to complete the qualification process.

Finally, we have a portfolio review underway at Litha to support business optimization in South Africa. We will continue to focus on the core pharmaceuticals business, as evidenced by today's announcement related to the acquisition of a portfolio of products from Aspen, as well as the recent licensing of ZORVOLEX from Iroko Pharmaceuticals by Litha.

However, we do continue to remain open to all our options for all of Litha's business units. With that, let me turn the call over to Suky to provide some more details of our financial performance for the quarter. Suky?

Suky Upadhyay - *Endo International PLC - CFO*

Thanks, Rajiv, and good morning to those joining us for today's presentation. We're pleased with the performance that Endo delivered in the first quarter of 2015. We believe the strength of our increasingly diversified portfolio, the efficiency of our integration of Auxilium Pharmaceuticals, and our favorable corporate structure have us well positioned to support our key organic growth drivers, and to access the capital we need to pursue value-creating M&A opportunities.

Starting with slide 14, I'll walk you through some of the financial details for first-quarter 2015. I won't cover revenues in detail, as Rajiv has already addressed that earlier in the presentation. Revenues increased 52%, versus the first quarter of 2014.

Underlying that, we had organic growth of approximately 21%. For clarity, underlying growth for Endo includes Auxilium results on a pro forma basis, and includes 2014 acquisitions, once annualized, and we exclude all sales and royalties related to LIDODERM for comparison purposes.

For the full-year 2015, we believe that our underlying growth rate will approximate our longer-term aspirations for sustainable high single-digit to low double-digit organic growth. As Rajiv discussed earlier, these results were driven by low double-digit underlying growth in our Branded Pharmaceuticals business, and strong double-digit underlying growth in our Generics business.

And while the International business was unfavorably impacted by a strengthening dollar, the underlying performance of the business was in line with our expectations. We continue to focus on organic drivers of the business, and the addition of Auxilium is the most recent example of how we expect to use acquisitions to support near term performance, while also providing durable revenue growth.

Moving to slide 15, adjusted gross margins increased in the quarter when compared to the first quarter of 2014, primarily as a result of improved margins within our US Generics business, that offset unfavorable trends in segment mix. Our adjusted operating expenses were less than 21% of revenues, or more than 500 basis points improved versus the prior year. We were very efficient in capturing synergies from the Auxilium transaction, and we are well positioned to support organic growth drivers for the remainder of the year.

In addition to our positive operating expense performance, we have an improving adjusted effective tax rate as a result of the Paladin transaction. We posted a first-quarter 2015 adjusted effective tax rate of 16%, which is over a 500 basis point improvement, compared to the first quarter of 2014. The improvements in our cost structure and adjusted tax rate led to first-quarter adjusted income growth at a rate that was significantly faster than our revenue growth. First-quarter adjusted EPS from continuing operations of $1.17 outpaced our revenue growth rate as well, despite the increased share count related to the Auxilium transaction. For additional details on our first-quarter 2015 financial results, please review today's earnings press release.

Moving to slide 17, I will summarize our full-year 2015 financial guidance, that we announced earlier this morning. First-quarter performance gives us the of confidence to affirm our top line guidance range and increase adjusted EPS guidance, while tightening and improving some of the details in between. We are holding our revenue guidance and raising EPS, despite FX headwinds, and a slower than expected start to the year for STENDRA. The continued diversification of our portfolio should enable continued growth for the Company in 2015 and beyond. We expect full-year 2015 revenues of between $2.9 billion and $3 billion.

On an adjusted basis we now expect our full-year 2015 gross margin to be between 64% and 65%. On an adjusted basis, we expect operating expenses as a percentage of the revenues for full-year 2015 to be in the range of 23% to 24%. On average, that implies approximately $30 million

of incremental operating expense each quarter based on our first-quarter expenses. We believe those incremental expenses represent investments with good potential returns from a combination of commercial and development projects.

Moving on with guidance, we expect adjusted interest expense in 2015 of approximately $310 million. We now anticipate an adjusted effective tax rate of approximately 13% to 14% in 2015. This rate is expected to be lumpy due to the mix of earnings and impact of discrete items throughout the year. Our strategic tax planning in a number of areas, including intellectual property planning and improved supply chain management, gives us confidence that we will be more efficient in our conversion of operating income to cash flow from operations, when compared to 2014.

We have increased our estimated adjusted diluted earnings per share from continuing operations, and now expect that to be in a range of $4.40 to $4.60 for 2015, and we project reported or GAAP diluted earnings per share from continuing operations for the year to be within a range of $1.70 to $1.90. Reported GAAP diluted earnings per share from continuing operations will fluctuate through the year, as we continue to finalize purchase price allocation for Auxilium, and as we incur the remainder of integration and acquisition costs related to the transaction. Our fully-diluted, per-share estimates assume among other items contained in today's earnings press release, a weighted average number of common shares outstanding of approximately 180 million shares.

Before closing, I would like to provide some comments regarding the earnings cadence for the remainder of 2015. We had a strong first quarter in a number of areas, and we believe that we can use that strength to set up an improved performance in late 2015 and into 2016. As mentioned earlier, we expect to increase prices on selected products in our US Generics business.

As Rajiv mentioned, while these price increases benefit our financial profile in future periods, the immediate impact of pricing penalties, such as shelf stock adjustments, will temporarily negatively impact sales and gross margins in the generics segment in the second quarter. This is expected to lead to overall Endo revenues in the second quarter that are broadly in line to slightly above first-quarter sales.

The combination of improved price and volume performance in generics, and increased promotional investments in US Branded Pharmaceuticals, along with the additional months of Auxilium sales in the second half of 2015, gives us confidence in achieving our full-year guidance for revenues. The impact of the second-quarter price increase in generics, along with stepped up OpEx, will lead to a lumpier quarterly result than originally expected.

Using the top end of our earnings per share guidance range, we would expect approximately 52% to 53% of our EPS to be realized in the second half of 2015. That implies a sequential step-down in second-quarter earnings per share results, but we are confident in our increased expectations for full-year 2015. Overall, I am pleased with the fundamentals of the business that led to the beat and race start to 2015. Likewise, I'm excited by the opportunities that we have to continue with the transformation of Endo into a leading global specialty pharmaceutical Company. Now, let me turn it back to Rajiv to close out.

Rajiv De Silva - *Endo International PLC - President & CEO*

Thank you, Suky. Before we start the question-and-answer period, I would like to close with a few brief thoughts.

Moving to slide 18, first, we continue to increase organizational focus on our core pharmaceuticals Businesses. The expected completion of the divestiture of AMS's Men's Health and Prostate Health businesses remains on track for third-quarter 2015, and we continue to evaluate strategic options for the AMS Women's Health business. Proceeds from the divestiture of AMS are expected to provide balance sheet flexibility, to support objectives for future value-creating M&A.

Second, we are investing to support current and future organic growth, as we have detailed in today's presentation. Third, we are focused on deploying capital to accretive value-creating transactions, and we believe our objective to complete two to three value-creating deals in 2015 is achievable. We continue to evaluate a robust set of small- to medium-size transactions across all of our Businesses, and we continue to be willing to opportunistically pursue larger transformative deals. What is important to emphasize is that financial discipline remains the key in all of our transactions.

That concludes our prepared remarks. Let me now turn the call back over to Keri, to manage our question-and-answer period. Keri?

Keri Mattox - *Endo International PLC - SVP of IR & Corporate Affairs*

Thank you, Rajiv. That concludes our prepared remarks, and we'd like now to open the lines to your questions. In the interest of time, if you could limit your initial questions to allow us to get in as many as possible, we would appreciate it. Operator, may we have the first question?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Marc Goodman from UBS. Your line is open.

Marc Goodman - *UBS - Analyst*

First question is on the incremental spending that you talked about. I was curious if you're taking advantage of just the rest of the business being strong, a lower tax rate or something, so that you're still able to make numbers, but you can increase spending? Or was the plan all along to increase spending in this manner?

And just in the generics, you mentioned the plan for the price increases, and obviously get the step-down before you get the step-up. I thought you had already done a big one of these last year, so can you talk about what occurred last year in that dynamic, and what's differently this time? Thanks.

Rajiv De Silva - *Endo International PLC - President & CEO*

So thanks, Marc. On the spending question, let me just give you a couple of thoughts, and Suky can add to it. It was always our intention to put incremental spending behind STENDRA, but certainly I think what we have been able to do, going into the second quarter, is benefit from the increased performance in the rest of the business, as well as better performance in areas like tax, as well as our better-than-expected performance in terms of capturing the synergies from the Auxilium transaction. All of those things do help us to put perhaps more than we had originally anticipated behind STENDRA. Suky, anything to add to that?

Suky Upadhyay - *Endo International PLC - CFO*

I think that's it. There was a little bit of timing of expenses coming out of Q1 into Q2 and beyond, but largely, it's due to the strength of the business.

Rajiv De Silva - *Endo International PLC - President & CEO*

And then on the generic price increases, you're right, we did take a price increase towards the back end of last year. But those were, largely speaking, on the hydrocodone products, and these were tied to the reselling of those products. The price increase that we now expect to take in the second quarter relate to different products. We are not going to talk about which ones they are, but they're different ones from the ones that we adjusted last year.

Keri Mattox - *Endo International PLC - SVP of IR & Corporate Affairs*

Operator, can we move on to the next question?

Operator

Yes. Our next question comes from the line of Chris Schott from JPMorgan. Your line is open.

Chris Schott - *JPMorgan - Analyst*

Thanks very much. Just two quick ones here. First, just going back to the generic pricing dynamics, is it possible to quantify how much of an impact that you're expecting in 2Q from some of these moves, and how much growth would you otherwise be seeing in your sequential top line this quarter, as you get the full Auxilium quarter, et cetera?

My second question was post the Salix bid in March, can you just elaborate a little more on the M&A opportunities, particularly the opportunity for larger deals? How unique was the Salix asset to you, or should we think about there being multiple opportunities for Endo to pursue transformational acquisitions? Thanks very much.

Rajiv De Silva - *Endo International PLC - President & CEO*

Chris, let me have Suky touch on the first question, and then I'll get to your question on M&A.

Suky Upadhyay - *Endo International PLC - CFO*

Yes, so Chris, on the generics price increase, thinking about how to size that, the way we look at that is in the second quarter, we expect that to have about an 8 percentage point to 10 percentage point unfavorable impact on gross margins in that business. So that will help you size what's the size -- or what the magnitude or quantum of the price impact or the penalties.

Chris Schott - *JPMorgan - Analyst*

Quickly on that, is there a payback period we think about typically, when you see those type of moves? Is that something within a quarter or two you recoup that, or does it take a longer period of time?

Suky Upadhyay - *Endo International PLC - CFO*

Generally, we see that to be accretive within the year. So breakeven tends to be within about a quarter, give or take a month, and then clearly by the end of 2015, it's NPD positive.

Rajiv De Silva - *Endo International PLC - President & CEO*

And then Chris, with respect to the question on Salix and M&A, as we have continually said, given the backdrop of ending the pursuit of Salix, our bread and butter transactions are the small to medium sized transactions. So we continue to look at a whole range of them across all three of our segments, branded, generics, as well as international.

That being said, we are open to larger, more transformational deals. I think what we found attractive about was the opportunity for double-digit growth, organic growth, in addition to the growth that our business currently sustains. So we certainly remain open for transactions of that nature. But the larger ones, obviously very opportunistic, and there's no predicting which ones, or timing of those types of transactions.

Chris Schott - *JPMorgan - Analyst*

Thank you.

Operator

Thank you. Our next question comes from Annabel Samimy from Stifel. Your line is open.

Annabel Samimy - *Stifel Nicolaus - Analyst*

Thanks for taking my question. I want to talk little about Auxilium, now that it's been in-house for three to four months. Can you talk about some of the things that you're seeing? For example, you had some overcapacity in urology that you were going to fill but now you're -- you've got a CSO for STENDRA. We've noticed that TESTOPEL, which is a relatively large product, is dropping off into the other brands. Could can you talk about some of the priorities within Auxilium, and how that's changed as you've had it in your hands for a few months?

Rajiv De Silva - *Endo International PLC - President & CEO*

Sure. Overall, we are quite pleased with the progress of Auxilium, as I said, from an integration standpoint. We completed the majority of it well within the time expectations that we had said. We're also pleased with the synergy capture.

In terms of the products, clearly we continue to be very optimistic about XIAFLEX, both in Dupuytren's Contracture as well as Peyronie's. And in R&D front, we continue to make good progress in terms of getting to the next trial on both frozen shoulder, adhesive capsulitis, as well as [early Lysol]. So the XIAFLEX brand, I would say, is progressing very well.

In terms of other priorities, the low T market is a big priority for us, because with TESTOPEL, AVEED, and now NATESTO, as well as some more legacy brands like FORTESTA and Testim, we have the broadest range of products in the low T market. Clearly it's an area of priority. So we do continue to focus on TESTOPEL, AVEED, and NATESTO. They are different sales forces, which allows us to continue our focus.

In terms of STENDRA, clearly you can judge from our comments this morning, that has been a bit of a disappointment for us, in terms of how the transition of that product worked from Auxilium to our hands. But that being said, nothing has changed about the profile of the product. We continue to believe that its safety efficacy profile puts it among leaders in the PD files, and with the new 15 minute onset indication, it is the clear differentiator. Obviously with a brand like that, we need to put in more emphasis around promotion, other tactics like DTC, which is what we are rolling out.

Just on the CSO, for example, just to comment, the CSO concept was one that Auxilium themselves had begun to initiate. We just changed the concept with a different CSO, with greater emphasis. So all in all, I would say the Auxilium acquisition is progressing very well, based on our expectations, and hopefully by the back end of the year, we should be able to get STENDRA back on track as well.

Annabel Samimy - *Stifel Nicolaus - Analyst*

Thanks.

Operator

Thank you. Our next question comes from Gary Nachman from Goldman Sachs. Your line is open.

Gary Nachman - *Goldman Sachs - Analyst*

Rajiv, on the Aspen deal, as you bulk up in South Africa, what other surrounding regions would you expect to expand into as well? And could you take some of those products and bring them into your US business? And then on BELBUCA, how are you feeling about a timely approval? Any pre-launch activities you have started on? And would you add reps for the launch of that product, if you get it approved on time?

Rajiv De Silva - *Endo International PLC - President & CEO*

Thanks, Gary. So with respect to Aspen, we're very pleased with that transaction, because as we have said in our comments, it is transformational for our Litha business. And as we stabilize the pharmaceutical base in South Africa, our expectation is that we ought to be able to expand into sub-Saharan Africa through more of a distributor and export business in South Africa, so that would be the next region of interest. In the medium term, we do have an interest in expanding into Northern Africa and the Middle East, but that's not likely to happen in the very near term. On your question around whether we can bring the products to the US, the answer is no, what we acquired were the rights for South Africa only.

BELBUCA, so far, so good is what I would say. We continue dialogue with the FDA. I think we already talked about the fact that the day 74 letter was an encouraging one, in that we didn't see anything in there that we saw was a major impediment to an on-time approval. That being said, the approval is uncertain, as you know, until the last minute, and is subject to discussion with the FDA. We continue to be cautiously optimistic about time line there.

In terms of the resourcing of BELBUCA, that's a question that we are still analyzing and debating. I think you also probably picked up from prior commentary that we made that we're becoming increasingly optimistic about what the market potential for this brand could be. If that truly does pan out, we will likely need to add resources. Right now, our belief is we can launch the brand with our existing field force. If the facts, as we get closer, trend towards more optimistic outcome, we would not be sorry about adding resources for this brand.

Gary Nachman - *Goldman Sachs - Analyst*

Okay. Thanks.

Operator

Thank you. And our next question comes from Jason Gerberry from Leerink Partners. Your line is open.

Jason Gerberry - *Leerink Partners - Analyst*

Good morning. Thanks for taking the question. First, can you just talk a little about some of the biggest swing factors to your generics outlook, and what's sort of embedded in the base case guidance? In terms of upside, is it continued lack of competition to the LIDODERM AG for the Boca product or was there really pipeline? Just trying to get a sense of what are some of the bigger upside factors. Then on XIAFLEX, just wanted to confirm, so the next step is a pivotal Phase III, and it seems like you're done with frozen shoulder, but just wanted to confirm that, as well. Thanks.

Rajiv De Silva - *Endo International PLC - President & CEO*

In terms of the swing factors on generics, our guidance for the year assumes additional generic competition for BOCA, as well as for as well as valganciclovir, as well as LIDODERM, right? So I think if anyone of those events is either delayed or doesn't happen, there would be upside in the brand, upside in the business. But also keep in mind the generics are a lumpy business, and highly competitive. So there are competitive dynamics that could lead in the opposite direction as well. So our ability to set our business is very well balanced in terms of our opportunities and their upsides and downsides in the business.

On your question on XIAFLEX, I'm not sure I fully understood it, but let me just clarify where we are. With cellulite, we are in discussions with the FDA with respect to the end points for our next trial. Most likely, the next trial is going to be a II-B trial, and not a Phase III trial. However, as we get closer to the time, and we truly clarify the end points, we may choose to size that Phase II-B trial in a way that it could become a pivotal trial, but we have not come to that point yet.

In terms of frozen shoulder and adhesive capsulitis, I'm not sure what you meant by, we're done with it. Where we are is that our results, as we outlined earlier in one of our previous public disclosures, was that we had a mixed result, due to unexpectedly high placebo effects. Since then, we've had a series of discussions with our thought leaders and investigators on that trials, and we are looking at ways of recrafting that trial, and most likely targeted towards recalcitrant patients.

So we do believe that there is likely a path forward for frozen shoulder and adhesive capsulitis, but again, the next trial is unlikely to happen before the end of this year. And most likely, that will have to be another II-B trial to prove out what we saw in the Phase II-A trial which was much more positive last year. Hope that's helpful.

Jason Gerberry - *Leerink Partners - Analyst*

Great. Thank you very much.

Operator

Thank you. Our next question comes from David Amsellem from Piper Jaffray. Your line is open.

David Amsellem - *Piper Jaffray - Analyst*

Just a couple. Regarding STENDRA, maybe talk about, and I apologize if I missed this, maybe the level of spend we should think about regarding DTC, and how many reps will be supporting the product by the CSO? And then secondly, on BELBUCA, I guess the question here is, are you now even more bullish about the sales opportunity, given how hydrocodone volumes have behaved since the rescheduling? So maybe talk about how you're thinking now about the sales opportunity, versus how you were thinking about it before the rescheduling, and the subsequent behavior and volumes? Thanks.

Rajiv De Silva - *Endo International PLC - President & CEO*

Sure, David. Let me take on the STENDRA question first. For competitive reasons, we are not going to dimensionalize the DTC spend. What I would say is our concept of DTC is not national broadcast TV.

We don't think that's the right move for the product at this point. So we are going to take a more targeted approach to it, so it will be more creative on how our DTC works. Suffice it to say that we will put sufficient resources behind it, with the restart of relaunching.

In terms of the number of reps, similarly for competitive reasons, we're not going to talk about exactly how many, but in terms of the contract sales organization that we are going to be now working with, it is a well-established contract sales organization, and STENDRA will be promoted alongside one other leading brand which is also in launch phase, and the number of representatives will more than double the number of reps, in terms that Endo is putting behind the brand. So it will be a reasonably substantial increase on what the efforts would have been otherwise.

With BELBUCA, the short answer is yes, I think as you know, against the backdrop of the rescheduling of hydrocodone, there's been a recent sharp drop in hydrocodone volume, which goes to show the more restrictive nature of prescribing for a Class 2 product. So under the presumption that BELBUCA will continue to be a Class 3 product, and again, there's no new information that would lead us to believe that would not be the case, we continue to be encouraged, because we do think that as a Class 3, that we will have promotional levels that are open to us that a Class 2 doesn't,

and therefore, allow us to have a fairly unique positioning for this product as a Class 3 opioid, with what we hope would be similar labeling to what the Class 2 products are. Though I hasten to add that courses of approval and review with the FDA is not done yet, and until we conclude that, we can't say this with certainty.

David Amsellem - *Piper Jaffray - Analyst*

Thank you.

Operator

Thank you. Our next question comes from David Risinger from Morgan Stanley. Your line is open.

David Risinger - *Morgan Stanley - Analyst*

Yes. Thanks very much. Rajiv, I was just hoping that you could provide a little bit more perspective on the OPANA ER outlook, and what to watch. And then with respect to XIAFLEX, I think that you had hinted that there were some other potential pipeline indications that you might consider for Phase II-A, but I'm not sure about that, so I just wanted to understand if there are other pipeline indications that you might pursue, besides cellulite and frozen shoulder.

Rajiv De Silva - *Endo International PLC - President & CEO*

Absolutely. Good questions. With OPANA, we continue to be very encouraged by how the brand is behaving, even against the backdrop of the two generics, we hold roughly about 60% market share of the molecule. We continue to promote it. Our development efforts have gone well in terms of the insufflation study that we conducted, and as we also talked about earlier in the call, we have now have a date with FDA to discuss (technical difficulty) our insufflation study data as well as epi data, hopefully in support of relabeling.

We just got done with patent trials in Southern District of New York, and obviously, we don't know exactly which way the trial will go. But as additional backstop, we have another set of trials for a more recent IP that was issued, that's filed in the District of Delaware. So we have multiple avenues for promotion and the clinical development, as well as vigorously asserting our patents. We will continue to defend the brand, as long as it remains economically viable to do so.

In terms of XIAFLEX and the other indication, other indications, so absolutely, we continue to be very enthusiastic about what the franchise possibilities for XIAFLEX will be. The other indications that we are currently in some form of early stage trial work, or contemplating trial work. Canine and human lipoma, that is currently under way. It's also had some very encouraging early stage results in uterine fibroids, and some of the other areas that we're looking at include capular contracture of the breast, keloids, and potentially tennis elbow somewhere down the road. Many of these obviously earlier than -- all of them are earlier than cellulite and adhesive capsulitis, frozen shoulder, but we are very encouraged by what some of the early results look like.

David Risinger - *Morgan Stanley - Analyst*

Thank you.

Operator

Thank you. Our next question comes from the line of Gregg Gilbert from Deutsche Bank. Your line is open.

Gregg Gilbert - *Deutsche Bank - Analyst*

Yes. I have a few. First, what are the drivers for the lower tax rate guidance, Suky? Secondly, Rajiv, is there anything new to share on your thoughts around the duration of the V-Gel cash flows?

And my last question is for you, Rajiv, on generic strategy, and I know you're not trying to be a broad-based generic company, but you do already get a large portion of your revenues from the US generics market, so my question is are you comfortable increasing your exposure to US generics as a portion of your total revenues, or do you think you're about right when you consider how diverse you would like to be? Thanks.

Rajiv De Silva - *Endo International PLC - President & CEO*

Suky, you want to start?

Suky Upadhyay - *Endo International PLC - CFO*

Hi, Gregg, good morning, it's Suky. First of all, on the tax drivers, the reason for the better than expected performance so far, and lower tax rate throughout the rest of the year, it really comes from faster than expected realization of our supply chain planning that we're doing through ventures and other vehicles in our corporate structure.

Secondly, we're also realizing some benefits from the Auxilium transaction, both from an intellectual property planning perspective, but also some of the one-time benefits that we're getting this year around net operating loss utilization. So it's really a combination of a number of factors that are driving us to a lower tax rate this year.

Rajiv De Silva - *Endo International PLC - President & CEO*

Gregg, on your question on V-Gel, so there's no new information. I think if you reflect on what we said at the beginning of the year, we have continued promotional rights to this brand through mid-2016, though we are in discussions with the new owners of the product, which has transitioned from Novartis to the GSK-Novartis joint venture in consumer health, about what the future might look like.

We've also said that there's no certainty around a potential generic for this brand, but to be conservative, we are making an assumption that there could be a generic in the market sometime in the back half of this year. But that having been said, there's no new information that would validate that assumption. Obviously, if that generic does not show up, we will continue to have a positive momentum with V-Gel throughout 2015.

In terms of your question on generics, as I reflect on the last two years at Endo that I've been here and certainly before that, Qualitest has been a continued sustained high performer, with mid-teens organic growth. So in that regard, we would not be opposed to adding to our exposure to US generics. I think as we said, we are unlikely to want to become a broad-based provider of generics, but we do like special niches and more protected areas like controlled substances. So if we have an opportunity to add assets to Qualitest, that add other niches, other high barrier to entry types of areas, we would certainly be open to it.

Gregg Gilbert - *Deutsche Bank - Analyst*

Thanks.

Operator

Thank you. Our next question comes from the line of Corey Davis of Canaccord Genuity. Your line is open.

Corey Davis - *Canaccord Genuity - Analyst*

Thanks very much. Can you tell us, I'm not sure you're willing to break it out, but within your generics division what percentage of that is roughly the hydrocodones, and also your generic AG on LIDODERM this quarter?

Rajiv De Silva - *Endo International PLC - President & CEO*

Suky, you want to handle generic lido and we'll see if we can get you an answer on the hydrocodone?

Suky Upadhyay - *Endo International PLC - CFO*

On generic LIDODERM, the AG, the way to think about that is it's approximately about a $45 million to $50 million revenue business, and then around our pain franchise, we don't specifically break out hydrocodone, but overall, the pain franchise is roughly about 45% of the total generics business.

Rajiv De Silva - *Endo International PLC - President & CEO*

Corey, the pain franchise is 45%, hydrocodone, sorry, pain, of controlled substance, about 45% of the Qualitest business. And without getting too specific, I would say the hydrocodones are a very meaningful proportion of that.

Corey Davis - *Canaccord Genuity - Analyst*

And lastly, the upcoming FDA June meeting on OPANA to talk about label changes, have you already submitted all your information, and how soon after that meeting do you think, if they're willing to change the label, that change could take place?

Rajiv De Silva - *Endo International PLC - President & CEO*

We are in the process of completing the information, sorry, the dossier for that meeting. Corey, there's no -- this has been, as you know, a multi-year ongoing dialogue with FDA, so I'm not going to predict timing of when they might respond. A lot of it is going to depend on their view on how much epi data is required to make the case.

So in our view, we have sufficient and robust enough data for that decision, but they may take a different view, right? That is -- that continues to be the uncertainty. That being said, we along with FDA, continue to believe that some form of abuse deterrent is in the best interest of patients.

Corey Davis - *Canaccord Genuity - Analyst*

Okay. Great. Thanks. Just lastly, I know it's probably not that material, but is the Aspen acquisition you just announced included in your newly-raised guidance for 2015?

Rajiv De Silva - *Endo International PLC - President & CEO*

No, no, we don't include acquisitions in guidance until the transaction is closed.

Corey Davis - *Canaccord Genuity - Analyst*

Okay. That's all I had. Thanks very much.

Rajiv De Silva - *Endo International PLC - President & CEO*

Thank you.

Operator

Thank you. Our next question comes from the line of Swati Kumar from Guggenheim. Your line is open.

Swati Kumar - *Guggenheim Securities - Analyst*

Thanks for taking the question. So I was wondering if you could give us a breakdown for the margins for the generic and international business? And also, as it relates to the Aspen deal, what would the multiples be without synergies, since you said it was under 10 times EBITDA with it? Thank you.

Rajiv De Silva - *Endo International PLC - President & CEO*

Just on Aspen and then Suky will talk about the margins. With respect to the Aspen transaction, viewing our agreements with Aspen, we are not going to talk about current EBITDA multiples. I think what made us comfortable with the transaction is that in our hands, against the backdrop of restructuring within Litha that this will enable, we're very confident in getting below the 10 times EBITDA multiple for the transaction. Beyond that, we can't disclose anything else.

Suky Upadhyay - *Endo International PLC - CFO*

Swati, regarding the margin profile of generics and international, so starting with generics, we closed out the year, exited the year in 2014 generics with gross margins in the high 40s and then operating margins in the low 30s. The way we think about it for 2015 is that we would expect to see gross margins in the mid-50s, and operating margins migrating to the high 40s. So a very nice step change in overall margin profile for the generics business.

And then as it relates to international, we exited, again, in the high 40s, on a gross margin basis and in the high 20s on EBIT. And relative to this year, we would expect to see ourselves about in the same place. And one of the things with Aspen, if and when we close that transaction, we expect that to be at about the overall international average, and well above the Litha average for that business.

Swati Kumar - *Guggenheim Securities - Analyst*

So one quick follow-up. For the mid-50s for the generic, does that include the pricing penalty this quarter?

Suky Upadhyay - *Endo International PLC - CFO*

It does.

Swati Kumar - *Guggenheim Securities - Analyst*

Thank you.

Operator

Thank you. Our next question comes from the line of Randall Stanicky from RBC Capital Markets. Your line is open.

Randall Stanicky - *RBC Capital Markets - Analyst*

Great. Thanks. Rajiv, I just have two questions for you. The first one, how do you balance IRR and some of the financial metrics as you look at these transactions, versus strategic opportunities for what may be a uniquely attractive asset, with really nice growth, but maybe less financially attractive initially out of the box? And then I have one follow-up after that.

Rajiv De Silva - *Endo International PLC - President & CEO*

Sure. Randall, we are very rigorous in our financial assessment of transactions, because it's very easy to get carried away with strategic assessments. So we do anchor on a set of financial criteria. What I would say is that the IRR criteria is not one that we relax in our evaluations very much.

There are other criteria, though, that we have that go along with IRR. We have IRR, we have requirements that the transaction be accretive within the first 18 months, we have cash payback. There is typically between seven to nine years, and then also an expectation that as a portfolio transaction, that they would be accretive to organic growth and our margin over time.

The things that sometimes get relaxed when you look at longer-term growth assets, are things like cash payback period. For a long-term growth asset, you would expect the cash payback period to be a little bit longer. In terms of accretion, we may take a little bit less near term accretion for a transaction like that, but unless we think that IRR is well above our cost of capital, we would not be creating value for our shareholders. That's something that we hold firm on.

Randall Stanicky - *RBC Capital Markets - Analyst*

Without getting into specific transactions, obviously there's been a lot of discussion with some of the bigger generic companies around increasing its appetite for OTC. Now, to be fair, most of that interest is branded OTC ex-US. You're building out your branded footprint.

I guess the specific questions is, A, is OTC an attractive area for you to want to build out, either in the US or outside the US? And then Aspen bought some injectables exposure. Should we be thinking about injectables as an area where inorganic additions over time make sense for you?

Rajiv De Silva - *Endo International PLC - President & CEO*

Sure. So first, on your question on the consumer OTC oriented products, the short answer on that one is that we do find the OTC arena an attractive one. And actually, some of our ex-US businesses already have small OTC components, so Paladin has a small OTC business in Canada, as does our Mexican business, Somar, as well.

We like the OTC assets because of the longer duration of those assets typically, and the self-pay nature of them. That being said, those are fairly difficult businesses to grow organically, with a small starting point. So if we ever did venture into OTCs, it would be on the back of a meaningful transaction.

In terms of your question on the injectables, certainly probably the most attractive part of the Aspen acquisition was the fact that we were able to acquire a very nice portfolio of injectable products for the South African market. And more broadly, we continue to believe that injectables are an attractive area. Again, there is likely to be something that we would enter through an acquisition, versus something that is home grown, but certainly, what we are able to do in South Africa, it's a great start.

Randall Stanicky - *RBC Capital Markets - Analyst*

That's helpful. Thanks, Rajiv.

Rajiv De Silva - *Endo International PLC - President & CEO*

Sure.

Operator

Thank you. Our next question comes from Michael Faerm from Wells Fargo. Your line is open.

Michael Faerm - *Wells Fargo Securities - Analyst*

Good morning. Thanks for taking the question. My question's on the 2015 guidance. Based on the reduction in tax rate, it would appear that would potentially drive a greater increase in EPS than the amount your guidance increased, particularly considering that the revenues and expense ratios remained unchanged. Could you provide any color on what other moving parts there might be there? Thank you.

Suky Upadhyay - *Endo International PLC - CFO*

Sure. We are increasing our overall EPS range as you've noted, tax rate is a driver of that. But as we have also said, we do expect to ramp up our operating expenses for the rest of the year. So while we're maintaining our overall OpEx guidance range, we'll likely be trending towards the higher end of that as a percentage of sales. That counters a little bit of the tax benefit, but overall, again, we're confident in our raise for the year.

Michael Faerm - *Wells Fargo Securities - Analyst*

One follow-up. For this quarter, the first quarter, what were some of the factors contributing to the lower than trend R&D in particular, and also SG&A?

Rajiv De Silva - *Endo International PLC - President & CEO*

On R&D, it's simply that our expected trial work on frozen shoulder, as well as cellulite is delayed a little bit from our initial assumptions, and that's primarily because on cellulite, we want to have the right dialogue with FDA before we enter into a trial in frozen shoulder, we need to make sure we structure the next trial in a way that optimizes the chances of success. All of that being said, in terms of our ultimate expectation of commercial availability of those two indications in 2018, hasn't really changed. We'll be able to have a better view on that, once we get to the next trial, and see what the results look like. So that, largely speaking, explains some of the lower than expected spend in R&D.

In SG&A, we're just getting through the integration of Auxilium and sometimes when you go through these types of things, you do slow down spend. You want to make sure that you're fully integrated, before you start spending in certain areas. So that essentially has moved some expenses into second quarter and the second half.

Michael Faerm - *Wells Fargo Securities - Analyst*

Thank you.

Operator

Thank you. Our next question comes from the line of Andrew Finkelstein from Susquehanna. Your line is open.

Andrew Finkelstein - *Susquehanna Financial Group - Analyst*

Thanks for taking the question. Can you address a little bit with a deal expanding your portfolio significantly in South Africa, that's been a market that's proven challenging for some of the international or generics players. Others have used some differentiated strategies to gain a bigger foothold there. How do you think about realizing the value of that pipeline, in a way that's compliant from a US and international perspective? And then also, for the base business of products that it has, if you could address the outlook for what those are going to do, absent the pipeline? Thanks.

Rajiv De Silva - *Endo International PLC - President & CEO*

So there are a few embedded questions in there. Let me see if I can get to at least some of them. So with the South African market itself, South Africa being a challenging market doesn't bother us, because we are a differentiated player, and frankly, we would rather be in areas where everyone else is running away versus going into areas where everyone is crowding into.

I think one of the primary differences that we don't view ourselves as an international player in South Africa. We view ourselves as being a local player in South Africa, which is why the Litha business will continue to operate as an autonomous business unit. It will continue to have the Litha name. The Endo name is not well-known now, but it will be well-known in South Africa.

Other than currency, which certainly has been a big headwind for the Rand over the course of the last little while, there's no reason to worry about the underlying growth dynamics in the South African market. It continues to be the most robust market in Africa, and on a local currency basis, is a market that we think, at least with the categories that we are going to focus on, is easily a high single digit growth market.

Furthermore, once we have a more robust base in South Africa, being able to export products in Sub-Saharan Africa, all of those markets are double-digit growth markets. Again, that's mostly because the markets have a very small starting point. That being said, from a forward-looking basis, they can be quite attractive for us.

And with respect to the Aspen portfolio and our own Litha Pharmaceutical business, we are in the middle of restructuring that entire business. And what I would say is that from a medium-term perspective, we have high single to low double-digit growth expectations for that business, and the business that we acquired from Aspen along with the pipeline, will be a very important contributor.

Andrew Finkelstein - *Susquehanna Financial Group - Analyst*

Thanks very much.

Operator

Thank you. Our next question comes from the line of Liav Abraham from Citi. Your line is open.

Liav Abraham - *Citigroup - Analyst*

Good morning. Just a quick question on AVEED. Correct me if I'm wrong, but the product is being promoted alongside XIAFLEX, following the completion of the Auxilium acquisition. I'm just wondering if it's benefited from being positioned alongside XIAFLEX. And also, the impact of the permanent J code that you received earlier this year, just interested in the performance of the product over the quarter, and any physician feedback? Thank you.

Rajiv De Silva - *Endo International PLC - President & CEO*

So the product is detailed by the same field force that details XIAFLEX for Peyronie's Disease and TESTOPEL. That being said, it's not a product that's co-positioned with XIAFLEX, so it's not going to benefit from that regard. However, it will benefit from the fact that the broader reimbursement support that's in place and is being optimized with XIAFLEX is one that powers AVEED, as well. So from that standpoint, once the dust has settled on that part of the integration, it will be a net benefit for AVEED.

So far, we've seen good continued upward momentum in AVEED with the permanent J code, and as we have consistently said, with these kind of buy and build products, we expect the launch phase to be a protracted one. I don't know that we can declare victory otherwise, until the end of this year. But the physician feedback on the product has been very good. People, physicians who use the product like it a lot, and the only areas for feedback, in terms of continued improvement, has been the reimbursement support, which as I said, will hopefully benefit from what we're doing for XIAFLEX as well.

Liav Abraham - *Citigroup - Analyst*

Great. Thanks.

Rajiv De Silva - *Endo International PLC - President & CEO*

Sure.

Keri Mattox - *Endo International PLC - SVP of IR & Corporate Affairs*

Operator, I think we have time for maybe one more question.

Operator

Yes, ma'am. Our last question comes from the line of Gary Nachman from Goldman Sachs. Your line is open.

Gary Nachman - *Goldman Sachs - Analyst*

Thanks for the follow-up. Suky, a quick one on tax, if you're benefiting from some one-time benefits and NOLs this year, what would the normalized tax rate be? What should we use beyond 2015? And then, Rajiv, one more on M&A. Just update us on what types of specialty brands you think it would make sense for you to expand into, specifically, would you consider having a bigger presence in the hospital space? Thanks.

Suky Upadhyay - *Endo International PLC - CFO*

On the tax rate question, we would expect our sustained longer term effective tax rate to be in the mid-teens, Gary.

Rajiv De Silva - *Endo International PLC - President & CEO*

And then in terms of your question on M&A, I think, as we've said in the past, Gary, we are opportunistic in terms of new therapeutic areas, and as long as the financial criteria that we talked about are met, we could see ourselves in a range of different therapeutic areas. In think, in general, what we've told you to expect is that we are unlikely to get into a very heavily primary care-oriented therapeutic area, unlikely to be in very science-heavy areas like oncology, et cetera. But outside of that, I think we would be open to any specialty-oriented therapeutic area.

Gary Nachman - *Goldman Sachs - Analyst*

Okay. Great. Thanks, guys.

Keri Mattox - *Endo International PLC - SVP of IR & Corporate Affairs*

Operator, I think we're all set, if you would like to wrap. Thank you, everyone, for joining the call.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all now disconnect. Everyone have a great day.