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Bausch Health Companies, Inc. (BHC) CEO Joseph Papa on Q2 2019 Results - Earnings Call Transcript

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EPS of $1.07 beats by $0.01 | Revenue of $2.15B (1.13% Y/Y) beats by $1.17M

Bausch Health Companies, Inc. (NYSE:BHC) Q2 2019 Earnings Conference Call August 6, 2019 8:00 AM ET

Company Participants

Arthur Shannon - SVP & Head, IR & Communications
Joseph Papa - CEO & Chairman
Paul Herendeen - EVP & CFO

Conference Call Participants

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Christopher Schott - JPMorgan Chase & Co.
Akash Tewari - Wolfe Research
Umer Raffat - Evercore ISI
Annabel Samimy - Stifel, Nicolaus & Company
Gregory Gilbert - SunTrust Robinson Humphrey
Jason Gerberry - Bank of America Merrill Lynch
Zhu Shen - Morgan Stanley
David Amsellem - Piper Jaffray Companies
Louise Chen - Cantor Fitzgerald & Co.

Operator

Welcome to the Bausch Health Second Quarter 2019 Earnings Conference Call. [Operator Instructions]. I would now like to turn the conference over to Art Shannon, Senior Vice President, Investor Relations & Global Communications. Please go ahead.

Arthur Shannon

Thank you, Andrew. Good morning, everyone, and welcome to our second quarter 2019 financial results conference call. Participating in today's call are Chairman and Chief Executive Officer, Mr. Joe Papa; and Chief Financial Officer, Mr. Paul Herendeen. In addition to live this webcast, a copy of today's slide presentation and a replay of this conference call will be available on our website under the Investors Relations section.

Before we begin, we would like to remind you that our presentation today contains forward-looking information. We would ask that you take a moment to read the forward-looking statement legend at the beginning of our presentation as it contains important information. This presentation contains non-GAAP financial measures. For more information about these measure, please refer to Slide 2 of the presentation. Non-GAAP reconciliations can be found in the appendix to the presentation posted on our website. Finally, the financial guidance in this presentation is effective as of today only. It is our policy to generally not update guidance until the following quarter and not to update or affirm guidance other than through broadly disseminated public disclosure.

With that, it's my please to turn the call over to Joe.

Joseph Papa

Thank you, Art, and thank you, everyone, for joining us today. I'll begin with the second quarter highlights before turning the call over to Paul Herendeen, our CFO, to review the financial results in detail and update our 2019 guidance. We'll then review the segment highlights and our positioning for the future and how we plan to drive long-term shareholder value before we open the line for questions. Beginning with Slide 4.

Our strong second quarter results demonstrate that our team's efforts to pivot to offense continue to gain traction. With 3% organic revenue growth, second quarter 2019 was the 6th consecutive quarter of total company organic revenue growth. B + L/International which now represent 80% of our total revenue, grew organically by 6% on a combined basis. This was B + L/International's 11th consecutive quarter of organic revenue growth, and Salix reported more than $500 million in total quarterly revenue for the first time. Our most important products or our top 10 products grew organically by 13% in the aggregate compared to the second quarter of 2018. And our continued focus on improving operational efficiency through Project CORE is expected to deliver more than $75 million of operating profit during 2019.

Moving over to the right of Slide 4, TRULANCE, a constipation of IBS treatment that we acquired last quarter is off to a great start. It generated $17 million of revenue in its first full quarter since our acquisition. We've continued to launch new products as well, including LOTEMAX SM in April, DUOBRII and ULTRA Multifocal lense in June and our Ocuvite Eye Performance vitamins in July. Finally, we continue to strategically manage debt and allocated capital. We generated $339 million of cash from operations during the quarter. We increased R&D spend by approximately 24% in the second quarter. We refinanced $1.5 billion of 2023 senior unsecured notes. In year-to-date, as of August 6, we have used $550 million to reduce the debt by approximately $350 million; complete the acquisitions of TRULANCE and dolcanatide; and licensed amiselimod for development and commercialization. Overall, a very strong quarter, thanks to a great team effort and the continued engagement of 21,000 employees of our health companies who are to truly motivated to launch new products, improve operations and keep delivering on commitment to help improve patient lives.

With that, I'll turn it over to Paul.

Paul Herendeen

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Thanks, Joe. Turning to Slide 5, and I'll start by walking down the top level P&L and then probably provide some color around our results. As Joe said, we had a good solid quarter with 1% reported revenue growth and 3% organic growth versus Q2 of 2018. Adjusted EBITDA for the quarter was $880 million, up 1% compared with Q2 of 2018. So we put a good first half on the board and we are raising our revenue and adjusted EBITDA guidance, more on that later. Assuming FX stays where we are today, at the midpoint of our revised guidance, we'll report about 1% revenue growth for the full year of 2019 versus '18. That's pretty good considering the $180 million growth track from LOEs we've observed in the first half of the year and the expected $230 million expected in the second half. So 3% organic revenue growth overall versus Q2 2018 with 2% of that coming from net price and 1% from volume, that's company wide.

Salix led the way up 12% organically despite the loss of [indiscernible] B + L/International continued its string of organic growth quarters up 4% with four of the five subsegments posting growth. Ortho Derm declined 13% organically mainly due to LOEs, while diversified declined 7% organically. Company-wide adjusted gross margin improved by some 50 basis points versus Q2 of 2018 with approximately 30% of that improvement coming from better operating efficiency and our global supply chain. I'll give a tip of the hat to the Dennis Asharin and his team for that. And the balance of that improvement was from a shift in mix to higher-margin products.

Adjusted selling, advertising and promotion expense increased $20 million on a reported basis, with the biggest drivers being the addition of the 100 sales reps and associated promotional spend in connection with the TRULANCE acquisition in the Salix segment and increased spend in B + L/International to support growth products, including LUMIFY, our eye vitamins Ocuvite and PreserVision, Biotrue ONEday and our ULTRA lenses. Adjusted G&A was down $10 million or 6% on a reported basis, mainly due to reduced corporate support costs, offset a bit by an increase in our IT costs. Our Chief Information Officer, Chuck and his team are underway in the process of transforming our global IT systems and infrastructure to support our future growth.

R&D was up $23 million or 24% on a reported basis, as we continue to build out our R&D organization and construct a portfolio of projects under development to protect our existing product franchises and to provide the fuel for longer-term growth. A quick note on how R&D appears in our segment P&Ls. R&D shown in the segment P&Ls reflects only the direct cost directly associated with those segments, mainly external clinical costs. To help you think about how you might allocate R&D to the segments, here is a couple of factoids for you.

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Our 2019 guidance suggest company-wide R&D will be the range of 5.3% to 5.4% of revenue. As we look forward and think about how our current level of spending in R&D as a percent of revenue might be allocated across our segments in the future, B + L/International may be at roughly the company-wide average as a percent of revenue; Salix may be higher than that; Ortho Derm less than that and diversified much less than that. That could change as we evolve, but based on where we are today, I think that color might be helpful. So despite the increased selling, advertising and promotion expense to support growth brands and higher R&D costs, our adjusted EBITDA rose 1% on both a reported and constant currency basis. That's good stuff. While we continue to believe that adjusted EBITDA is our most important profitability performance indicator, I know that some of you also focus on adjusted net income and there are couple of items of note below the operating line.

First, as we continue to use available cash to reduce debt, then predictably, interest expense declined and act as kind of adjusted net earnings accelerator. It's the P&L manifestation of the enterprise value shipped from debt to equity every time we reduce our debt. From Q2 of 2019 to '19, our interest expense declined $26 million. The other item of note is our income tax rate on adjusted earnings, roughly 8% this quarter versus 12% in Q2 of 2018. The combination of those two items result in adjusted net income being up 13% on a constant currency basis in Q2 '19 versus Q2 of 2018.

Turning quickly to the segments and starting with the B + L/International on Slide 6. 4% organic growth was driven by 1% by price and 3% by volume. Just a couple of items of note. In terms of dollar contribution of growth, the Global Consumer business was up a solid 5% organically on strong sales of our eye vitamins PreserVision and Ocuvite and our Redness Reliever LUMIFY. The growth in consumer was all volume-driven as realized prices were down slightly. Global Vision Care was very strong, plus 8% organically, the 8th consecutive quarter of growth for the Global Vision Care business. For growth dollars in Global Vision Care came roughly equally from within the U.S. and internationally. Growth in Global Vision Care was all volume as realized net pricing was flat across the segment. Note that in the U.S., over the last couple of years, we have been using discounting strategically, while partnering with independent optometrists and eye care retailers, and that was to regain momentum in increased share. It's working and under Joe Gordon's direct leadership, the U.S. Vision Care business has grown in dollar currently for eight consecutive quarters. We've ratcheted back our use of discounting and in Q2 of 2019 versus '18, our realized net pricing in the U.S. decreased only slightly versus Q2 of '18, while volume was up significantly, a good stuff indeed.

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The growth drivers in the segment for the quarter were the Biotrue ONEday family, our silicone hydrogel daily disposable, AQUALOX in Japan and our ULTRA family of silicone hydrogel lenses, particularly outside the United States. Our international pharma business grew 4% organically, which benefited from solid performance mainly in Canada, Eastern Europe and in the Middle East and that was mainly in a moon in Egypt. Global Ophtho declined 1% organically, impacted by a decline in Lotemax due to loss of exclusivity that was offset by VYZULTA growth and strong performance in international markets. Global Surgical grew 2% organically, driven mainly by growth in our international businesses outside the U.S. Down in our operating expenses for B + L/International, you can see increase in selling, advertising and promotion expenses that I talked about earlier.

On to Salix Slide 7. Salix was up 12% organically, that's excluding the $17 million of revenue from TRULANCE that was acquired earlier this year. XIFAXAN was a star, up 21% overall. Volume was up 8%, that's in line with the growth in TRxs, improved gross net spreads -- gross to net associated with our Project CORE added about another 7%, and the net impact of the January price increase after the associated contractual increases in rebates added another plus 6%. The full through benefits of our Project CORE activities on XIFAXAN that have improved our gross to net for the brand will likely be a bit of a growth tailwind through Q3 of this year, but I expect them to moderate in Q4 and beyond. GLUMETZA has continue to do well despite the loss of exclusivity for the brand. Our proactive management of the brand through that loss of exclusivity resulted in our seeing excellent realized net pricing in the quarter and a marked uptick in volume. A word of caution here with respect to GLUMETZA. As we move into the back half of 2019, we fully expect a significant drop in realized net pricing for GLUMETZA, especially in Q4 and beyond.

Down in Salix operating expenses, you see the impact of the acquisition of TRULANCE in the 29% increase in selling, advertising and promotion expenses.

On to Ortho Dermatologics in Slide 8. Overall segment revenue was down 13%, as it continued and I would say, impressive growth of Solta could not overcome the impact of LOEs in the medical derm business. I Solta, as we rolled out Thermage FLX in the Asia Pac, the demand was even stronger than we had forecasted there was the big driver of the 44% organic growth over Q2 of 2018. In medical derm, the $36 million impact of LOEs, including for ELIDEL, SOLODYN and ZOVIRAX overwhelmed the $4 million pickup in the balance of the portfolio.

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Turning to Slide 9 in the diversified segment. Our generics business benefited from lunches of authorized generic versions of UCERIS and ELIDEI, and our team continue to capitalize on competitive supply issues. Our Dentistry business continues to face reimbursement challenges from payers particularly for and our neurology business absorbed an LOE impact of $30 million versus Q2 of 2018. As a reminder, our diversified segment is not expected to grow. We manage the assets in the segment to maximize cash flows over time and the 7% decline in revenue for the quarter is consistent with that goal. Note that we selectively promote some of the products in this segment where we believe that the durability and duration of the brand enables us to earn appropriate returns on those promotional investments. I'm talking about products like Wellbutrin, Aplenzin and Migranal. You see that selling, advertising and promotion expense increased versus Q2 of 2018, that's why. I'd these activities aren't as high profile as say promoting XIFAXAN or LUMIFY, but they are valued generative nevertheless. For example, Aplenzin was up 62% compared with Q2 of 2018. The neural business had been run by a talented colleague named Yolanda Barnard and she delivered excellent results for us. And that earned to the to move over and now head our U.S. Ortho Rx business.

On to the balance sheet on Slide 10. If you look at the balance sheet from the end of 2018 to June 30 of 2019, year-to-date, we reduced total debt by some $250 million. I'll point out that we also played -- recently paid down another $100 million of our debt. So year-to-date to today, debt reduction in 2019 is roughly $350 million.

Turning to Slide 11 and our cash flow. Our cash provided by operating activities in Q2 totaled $339 million. This was higher than we expected due to some deputy in the timing of cash receipts at the end of the quarter. I'm bringing this up because we said in the past that Q2 and Q4 are expected to be weaker cash generation quarters due to the clustering of inter-settlement dates in those two quarters. About 1/3 of our cash interest in each of Q2 and Q4 and about 1/6 in Q1 and Q3. The higher cash generated in Q2 due to the fortunate timing of cash receipts will take the top off to some of our cash generation in Q3, while we are still on track to generate between $1.5 billion and $1.6 billion in cash from operating activities in 2019.

On to guidance on Slide 12. We are raising our revenue guidance by $50 million across the range and for adjusted EBITDA by $25 million across the range. Most of the other guidance unchanged, except that we revised our guidance for gross margin to roughly 72% based on where we are at the halfway point and we increased the share-based comp to $110 million.

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On Slide 13, you see the guidance bridge. Since we last provided guidance back in May, FX improved at the revenue level by $10 million. We increased our expectation for revenues for the LOE assets by $20 million and increased our expectations for our base business by $20 million. The change in the LOE estimate was based on our moving out to the date for Q4. At adjusted EBITDA, we raised guidance by $25 million across the range and that was driven by $10 million of incremental profit from the LOE assets and improved profitability in our base business. Before I turn it back to Joe, I think it's worth taking stock of where we are today and how we are positioned for the future. We made significant progress in reducing the quantum of our debt, were down from $8 billion since Q1 of '16 and in managing our upcoming maturities. As Joe loves to say, that came gave us the freedom to operate to put our company on the right path. We have now posted six consecutive quarters of organic revenue growth, which, considering the sheer volume of LOEs, we had to work through this quite an accomplishment. We've laid the foundation to enable the company to capitalize on its competitive strength and deliver consistent growth of organic revenue, profits and cash flow. That started with reorganizing our businesses and putting in place a strong commercial leadership team. Then we took a hard look at our operating expenses, eliminate ineffective costs and allocated additional resources where we could drive growth.

To ensure that we can grow organically, we've increased our spend in R&D. So today, with the great progress we've made in dealing with our capital structure and with the magnitude of the LOE impact is decreasing, we believe that we are a company that can grow amid single-digit grades over time, is highly diversified with positions of competitors styrene [ph] in each of our core businesses, and enjoys an efficient global tax structure that enables us to convert a large percentage of earnings into cash that can be used to shift the enterprise value from our debt holders to our equity holders.

We've come a long way since 2016. Joe?

Joseph Papa

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Thank you, Paul. Another great review. Let's go through some of the highlights in our B + L/International segment on Slide 14. First, this segment delivered 4% organic growth, as you can see in. the chart. The second quarter's organic growth was driven by an increase in volume, particularly in Global Consumer and Global Vision Care. And looking ahead to future growth drivers for this business, we believe there are mega trends that have the potential to drive demand for eye care products in the years ahead. One of these mega trends myopia or nearsightedness is increasing to epidemic level. Importantly, myopia is also a risk factor for glaucoma, macular degeneration and retinal detachment. And this unfortunately is a global trend. Nearly 40% of North Americans are now affected by myopia and the number of cases have doubled between 1972 and 2004. In Europe, 42% of adults between the age of 25 to 29 have myopia, almost twice the rate of the 55 to 59 year-old, and we're seeing a similar trend in Eastern Asia. 87% of individuals born after 1997 in Hong Kong have myopia compared to 30% born prior to 1950. Bausch + Lomb integrated eye care platform is well positioned, provide products to improve the lives of those with myopia, including corrective lenses, over-the-counter ophthalmic products, surgical offerings and prescription treatments.

Turning now to Global Consumer on Slide 15. Our eye vitamins, Ocuvite and PreserVision, grew by 13% organically in the second quarter on a combined basis, driven by brand extensions. LUMIFY continues to outpace expectations, having achieved a weekly market share of more than 35%, just one year after launch. IN the Redness Reliever category, LUMIFY is number one physician-recommended product and number one eye drop on Amazon. E-commerce continues to be an important channel for our Global Consumer product as a second order of Amazon data demonstrates with 83% growth compared to the second quarter of 2018.

Onto Slide 16, new products are driving 8% organic growth in Vision Care. International, we saw significant growth in Japan, China, and Russia. And in the U.S., Vision Care had its 21st consecutive month of market-leading growth. If you look at the chart on the bottom left, you can see Bausch + Lomb's estimated U.S. contact lens growth of 13% in the second quarter compared to the industry average of approximately 8%. Globally, B + L grew by 8% compared to the industry average of approximately 5%. I want to highlight one new launch product that is helping drive this growth, ULTRA multifocal contacts for astigmatism. Breaking new ground, this product is the first multifocal toric lens available as a standard offering in fit sets, rather than as a customer order. Now available in the U.S., the ULTRA lenses allow for a seamless transition between distances and given that the limited options for the 32 million people in the U.S. who have both astigmatism and we believe these lenses will have a strong market position and significant growth opportunity.

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Turning now to Slide 17, Salix had a great quarter, delivering over $500 million of revenue for the first time, driven by XIFAXAN, which had its highest quarterly reported revenue to date. Compared to the prior year quarter, TRx for our promoted brands all grew up nicely in the second quarter. XIFAXAN was up 8%. TRULANCE grew by 31%, and RELISTOR oral was up 12%. Our team also resolved two important property matters. The court upheld the validity in terms of activists infringe our patent protecting RELISTOR tablets, and we resolved the APRISO IP litigation with two out of the four paragraph IV filers.

Finally, we anticipate some near-term developments that are expected to be catalyst for this business. These includes three new indication development programs for Rifaximin and a cardiovascular [indiscernible] readout for Amiselimod that we are expecting around the year end. On the right we show our approach to expanding and diversifying the GI business, at the base of our portfolio-promoted products, including TRULANCE lands, which we recently acquired. Building on that basis, the sales team has had a number of additional initiatives that we expect to help grow this business over the longer-term, including new indications for rifaximin, Amiselimod, which is S1P modulator for the treatment of ulcerative colitis, dolcanatide, an investigational compound, which has demonstrated proof-of-concept in treating multiple GI conditions, and investigational treatment for NASH, and finally, and an over-the-counter, probiotic. Overall, we are pleased that progress in our GI pipeline and we're looking forward to a lot of activity over the next 12 months.

I want to talk more about XIFAXAN on Slide 18 given its record quarter of 21% reported revenue growth. As Paul discussed earlier, this growth was primarily driven by volume and proactive steps to improve gross to net. We're seeing strong script growth with TRx up 8% versus the second quarter 2018 and up 6% versus just the first quarter sequential of 2019. The primary care of expense is delivering. New Rxs in primary care grew by 16% in the second quarter versus the prior year quarter. You can see the quarterly TRx churn on the right, which shows the TRx growth since the primary care team was added in the first quarter of 2017. And in the second quarter of 2019, XIFAXAN was up approximately 13% in the non-retail channel, compared to the prior year quarter.

Onto Slide 19, TRULANCE continues to perform well relative to the 2019 guidance we gave last quarter. In the first quarter of promotion since the acquisition, TRULANCE TRx grew by 31% versus the prior quarter and by 7% over the first quarter. Leveraging Salix existing GI in primary care relation for TRULANCE, we have further integrated TRULANCE with our largest XIFAXAN sales force. As we shown on the bottom ride, we had about 100 reps detailing TRULANCE in the first quarter. We added another 100 sales reps in the second quarter. And as of this month, we've increased that number to approximately 500 sales reps promoting TRULANCE. We also increased GI and Primary Care targets by more than 65% in the second quarter, and increased reach and frequency to healthcare providers by more than 60% since the acquisition.

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Our team has also done an excellent job in improving market access, commercial coverage as it increased to approximately 86%, and unrestricted access is right around 47%. We've also added 2.4 million covered lives across five regional plans since acquisition and improved coverage for roughly 7 million federal lives through the TRICARE program. Overall, we are very pleased with TRULANCE performance.

Moving on to Ortho Dermatologics on Slide 14. While we report a total segment organic revenue decline in the second quarter, the performance of our aesthetic business has been outstanding, up 44% organically driven by the strong launch of Thermage FLX. Another highlight is Dermatology.com, our cash paid prescription program, which is gaining traction. We recently announced that the program will be available at more than 9,500 Walgreens U.S. retail pharmacy locations by the end of this month. We expect approximately 15 products to be available through the Dermatology.com channel before the year end and to launch e-commerce and telemedicine on the platform in 2020. We see a real opportunity for Ortho Dermatologics to be a leader in delivering predictable access to prescription dermatologies at predictable prices. Segment as a whole, we're pleased that new products and aesthetics are driving the transformation of the dermatology business.

You can see the progress making on the graph on the bottom of Slide 20. Here we shown the percentage of revenue from Global Solta base business in green and new products, including the Thermage FLX, which are shown at the time line at the bottom of the slide in blue. Beginning in 2017, the revenue from Global Solta generated approximately 15.2% of total segment revenue. In 2018, Global Solta and new products contributed 18.3% and 7.7%, respectively, of total segment revenue. And in the first half of 2019, Global Solta revenue had grown to 21.7% and new products generated 23% of total segment revenue. So with nearly half of total segment revenue being driven by Global Solta and newly launched product, we're moving in the right direction and expecting this trend to continue.

On to Slide 21. Early feedback on DUOBRII has been very positive. First and foremost, DUOBRII is a topical treatment you can keep using until your skin is clear before your health care provide instruction. This is a key differentiator. Many healthcare providers recommended benefits of topical products that does not have the duration limitation of other treatments for psoriasis, which is a chronic disease. We're strong momentum and product demand. In the 5th week, post launch, we've delivered more than 1,650 prescriptions. Also DUOBRII's managed care value proposition is compelling. It has the potential to delay some patients from switching to more expensive biological treatment, which could result in an overall healthcare savings. In terms of reimbursement coverage, DUOBRII has more than 30% of covered lives at launch, and we are projecting approximately 75% of covered lives, 12 months post launch. Based on early data, we remain very optimistic about DUOBRII's potential, which combined DUOBRII's efficacy as a treatment. With its potential to create significant cost savings for managed care, we believe there is an enormous opportunity for this product.

On to Slide 22, I'm happy to report that all of the Significant Seven products have now been launched. And in the first half of 2019, Significant Segment revenue increased by 76% versus the first half of 2018. On Slide 23, we present our prospective and how the company is positioned for future growth and how we plan to drive long-term shareholder value. First, building on the points that Paul made earlier, we continue to improve and de-risk our balance sheet. We're reduced debt by approximately $8 billion since the first quarter of 2016, and we are successfully managing our maturity profile. Next is growth. We've overcome the primary loss of exclusivity challenge facing the business. And anyway you look at it, we are now growing. The second quarter was our 6th constitutive quarter of total company organic growth.

Finally, investment. Our growth is not coming at the expense of tomorrow. We are investing in future growth drivers. We've increased R&D spend and we're getting new products approved and launched, while also strengthening our new product pipeline through business development. We have invested and continue to invest in sales teams to drive commercial growth. Our XIFAXAN Primary Care sales team is delivering growth, and we are deploying 500 sales reps behind TRULANCE as a new driver for our Salix business. We are also expanding sales force were highly and do over it. And we are continuing to build out Solta's geographic footprint. For these reasons, we believe that Bausch Health is well positioned for the future.

To wrap up, Slide 24 summarizes the expectations for 2019 that we set forth at the beginning of the year. To review, first, we expect to grow both organically on a reported basis. Second, we expect strong cash flow from operations, R&D is expected to grow by approximately 10%; the Significant Seven revenue is expected to be in 2019; Project CORE is expected to deliver more than $75 million operating profit in 2019; and finally, we've raised our guidance for the year.

With that operator, let's open up the lines for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. The first question comes from Chris Schott of JPMorgan.

Christopher Schott

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I guess, my first one is, can you just talk a little bit more about pathways to further delver the business? I guess, it seems to me with the strong organic performance we're seeing and Alcon spin shining a light on the B + L business. More of a primary hurdles to your evaluation further relating is the company's leverage position. So I guess, just how much of a priority is it for the company to find ways to accelerate the deleveraging process beyond just organic growth? And do you see pathways to do that? My second question was on the gross margin performance. We obviously saw very strong first half results. But I think, if I look at the year, I think you averaged 73% in the first half of the year. Your guidance is 72%. What's driving that step down in the second half? And maybe just some comments about how we should think about the gross margin trends over time given the 72% kind of baseline we're seeing in 2019?

Paul Herendeen

Sure. Thanks for the questions, Chris. It's Paul speaking. I mean, you hit on the -- surely the primary way that we expected to delever is through growth of organic earnings and then prioritizing our free cash flow generated to the reduction of debt. Certainly, there are -- we are now allocating more dollars to R&D. So we're not starving the business in order to be able to maximize cash flow in the short-term. But we are allocating R&D dollars in order to, as I said in my prepared remarks, ensure that we can drive organic growth over the much longer haul. That's the primary path that we are going to go down and that we will be expecting to. With respect to gross profit margin, we've communicated that in the first quarter we put up a really strong number and we indicated that, that would not persist through the whole year and expected it to come down. And at that time, we maintained our guidance. We did put up a good strong first half. And so instead of having arranged, I think it was lower end I was 71.5%. We said it's going to be 72% and that's reflective of we put a half year in the books and we continue to do well with our efforts to manage. You need to keep your eye on a LOEs that are going to hit in the second half of over $200 million of LOEs that we expect to hit in the second half of the year and those are by and large very high-margin products, that are from a mix perspective, going to drive that down.

Joseph Papa

I think Paul did great job answering. The only thing I would say is complements to Paul and would feel our treasurer who have just done a great job with our debt structure and given us this freedom to operate. As we generate cash, we're putting it towards either this debt payment or allowing us to look at some M&A opportunities. So to me that still the most important way we're going to reduce -- is grow our EBITDA to reduce our overall leverage. But good questions and good answers. Next question?

Operator

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The next question comes from the line of Akash Tewari of Wolfe Research.

Akash Tewari

Few questions. So looking back at XIFAXAN in 2018, it was up 20% year-over-year, a third of that was volume, a third of that was project core and a third of that the price increase. Via that math, you've been able to realize a pretty large amount of our lag price increases for XIFAXAN historically. And it looks like you've realized about 6% for the January increase recently. Do you have any comment on what's allowing you to do that? How we should think about the net realized price contribution on XIFAXAN going forward? Next, you've previously stated that trial for XIFAXAN will be run via for 5 50 dose. Today's make that explicitly clear. What formulation will you use for your trials? And can you talk about the commercial opportunity for this indication over time? And then lastly, we noticed the corporate allocation for SG&A decreased from $86 million to $71 million year-over-year. Can you talk about what drove that decrease and how much operating leverage is there internally to reduce this corporate allocation spend overtime?

Paul Herendeen

Thanks, Akash. Three really good questions. Let me start with the question around XIFAXAN and how we are able to improve that gross to net, which has the appearance of us gaining via price. If you look back to '18, we talked a lot about the steps that we took at the beginning of '18 with non-retail channels, we've already reduced some discounting. That was just frankly not -- was not a great play by the prior regime to enter into those agreements. And when they came up at the beginning of 2018, we simply didn't renew and made better deals in non-retail channels. Those are clinics, those are not hospitals, it's mainly clinics and other groups that buy directly, and that was a big driver through 2018 versus 2017.

The other thing if you recall at the end of last year, we substantially suck down the pipeline inventory for all of our products and, of course, XIFAXAN is a big product for us, whereas that assisted us in improving our gross to net by not having the same requirement for accruals with respect to a product like XIFAXAN and not just XIFAXAN, but XIFAXAN, APRISO [indiscernible] Generic Glumetza, really across the board, but U.S. specific XIFAXAN but really was across the board that helped as well. And we've continued that on into 2019. And so as we clean things up, we are just getting the realization of a lift in gross to net, which is helpful. We called out the impact of the January price increase because we certainly don't want to give the impression that, that growth is a result of us raising prices in the system. What we're doing is we're better managing our gross to net, not just for XIFAXAN but across the Board with many of our products that's all part of the Project CORE. We've been quite successful with it. Joe, you want to take the trial?

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Joseph Papa

Sure. The only thing I want to say to the last part of what Paul said to is, [indiscernible] cards, we're just trying to be smarter about where we put those, so that we're getting the gross to net we think are appropriate that are helping to grow the overall revenue. That's what Project CORE is all about. CORE stands for cost optimization revenue enhancement, and that's why we're doing it. On the question on the clinical trial, you are correct. We had previously talked about the 550-milligram dose on that. I think at this point, the best way I'll say is that we got some very interesting things going on with our SSD formulations with our controlled release SSD or immediate release SSD. We had some very interesting things going on with the ERR and then additional formulations. So we're looking at a lot of different ways to try to improve on this. And importantly, not just have a new formulation but to have better efficacy for the patient that needs the IBSC indication. So we look for us to have more to say about that, but I just want to let you know that we are not stopping just with what we have, we are looking at new ways to deliver XIFAXAN and get a better patient response on the efficacy side. So we'll have more to say about that when we actually launch the trial, but just know that we are investing behind XIFAXAN as our largest product and looking at all the opportunities in front of us for new formulations, Paul, do you want that last corporate SG&A comment?

Paul Herendeen

Sure. I mean, the corporate SG&A, I called out in my remarks, I think, what we are doing is we're trying to be much more effective in the dollars that we deploy to our calling enabling activities. Those are noncustomer-facing activities back in the whole. So overall, quarter-to-quarter, we were down $10 million, which is not a lot, but we are very focused on that being efficient there. I also did call out and point out that going the other way, we are investing more in our IT and IT infrastructure. This is an area that if you go back four, five, six years as the company came together through a series of acquisitions, perhaps they did not invest as much behind that as we might have if we've been here then. We are fixing that now. We've put together a terrific team and we're supporting them with funding that will enable us. So you got that going up and that's why I called it out. But more importantly, the balance of our enabling functions we're being as efficient as we can because unless somebody can tell me different enabling functions typically don't drive revenue.

Operator

The next question comes from Umer Raffat of Evercore ISI.

Umer Raffat

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I had one for Joe and one for Paul, if I may. Joe, would you be open to a large cash flow deal even if it's not exactly a growing asset, perhaps a bunch of assets in China, et cetera? Would you be open to something like that? And while you're added, can you quantify for us the size of your China business today and what percentage is RX? And Paul, I don't know how to ask, but I should ask anyway, the question is, I've kept getting questions on whether you may possibly consider retirement near term. So I was curious have you looked into renewing your contract beyond August? Do you like still Joe? Do you still like Scott?

Joseph Papa

We like Paul too much. That's a good one. Let me start with the first question and Paul will give you time to contemplate your comment back. So Umer, on the question on large cash flow deal, I think the best way I can answer that is we are driven to drive long-term shareholder value. We'll continue to think at all options that will drive that long-term shareholder value. So if it's a cash flow or other things, that's clearly something we always look at relative to anything that can help, especially if it's a large cash flow that would allow us to improve our overall leverage and the business as we would grow EBITDA. So anything that we think has the opportunity to drive shareholder value, we would do that. On the question of China, ballpark our China business is approximately $400 million of sales. The majority of it is in obviously the eye care business. I remind you that we are the number one player in contact lenses. We are the number one player in eyedrops in China. That's the two primary areas of our importance there. Paul, do you want to answer to your comment?

Paul Herendeen

Yes, sure. Thanks for putting me on the spot there. When I joined, I mean, it was the question I'd say, well, we want to contract and we settle on a three year contract, correct me if I'm looking at Christine, our General Counsel, I think it automatically renews and keeps right on going. The last couple of years the comp committee has seen fit to provide me with incremental incentives to stick around in terms of equity. So as long as I'm having fun, I feel like I'm adding value. I'm intending to stick around.

Operator

The next question comes from Annabel Samimy of Stifel.

Annabel Samimy

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I want to ask about dermatology. DUOBRII clearly seems to be launching more rapidly than the others. Is it coming at the expense of the other psoriasis products? Are these launch now enough to offset some of the sizable pressure that you saw in this new dermatology environment? Do we get to see growth at the business again? And then if you could help us with Dermatology.com. With the addition of Walgreens, do you expect to see these increased volumes offset by pricing? Or do you now give the benefit of both volume and better pricing? If you could just help us understand the dynamic there between the volume and the pricing?

Joseph Papa

Okay. A lot of good questions there. First and foremost, we are very pleased with DUOBRII and we are seeing over approximately 150 prescriptions per week. And if you see what we are able to do here, during the quarter, we were able to grow SILIQ versus a year ago. SILIQ was up approximately 267% versus last year. Sales have essentially doubled. So that's clearly going in the right direction during the quarter. DUOBRII prescriptions are right around that 1,700 level. So it's still holding its own. So it's not coming, just simply replacing. DUOBRII is not simply replacing BRYHALI. We're still able to hold BRYHALI as well.

So we think that overall dermatology business is going in the right direction. We absolutely had some LOEs as I mentioned on the call that we had to work our way through. But overall, probably the best thing I can say about our dermatology business is, this strength of DUOBRII and what it's doing for psoriasis patients, for the patient, for the physicians and the prescribing gives them new alternatives for Topical, which is most of them are looking for the treatment of psoriasis, and then importantly, our ability to help lower the cost to manage care, if patients can delay the needs for biologics, are all the reasons why we think this is going to truly transform the business model for us and dermatology. And you're seeing it. You're seeing it when I put this slide together that showed how the new products plus the growth in Solta are today somewhere in that 45% to 50% of our overall business. That's truly transformation as clearly as we can show it.

On the second part of the Dermatology.com, having an additional 9,500 stores to be representing the Dermatology.com and have a place where we can have a situation where there is no issues of cash pay is what is going to happen there, number one, number two, it gets a very predictable price for the patient. So there's no variations on that. They all got a very predictable price. There is no prior authorizations for the physician requires. That's clearly another important part of what we're trying to accomplish with our Dermatology.com. And, of course, as we have these additional outlets, because that's even more places where the patient is more convenient for patient. So predictable access for patients, predictable price for patients, physicians get the formation they prescribe, the formation they prescribe, we think it's a winning combination and we're adding most products to it for the future.

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Paul Herendeen

It's Paul. I want to jump in on this as well. I want to recognize Bill Humphries and his team because this is something new. This is not something we said, well, look, somebody else did it and we're going to go out and do it. I think that the progress that we are making, it's coming step-by-step-by-step. But at this point, we currently have nine brands that we have in the cash we're targeting 13 to 15 by year-end and a bunch more coming at some point beyond that. We've products like [indiscernible] I am not going to get them all because I can't remember them from just from memory. But Bill and his team, they've done a great job of conceiving this, putting in place the way that we can have a cash model, that's effective, using it with Dermatology.com. And the addition of all those with doors with Walgreens is absolutely helping us making progress on this side. I think it's change the way some of these drugs are delivered to patients with the benefit of everybody.

Operator

The next question comes from line of Greg Gilbert of SunTrust.

Gregory Gilbert

I have a few. Paul, I want to make sure I understand the growth to net benefit on the facts and what you're suggesting going forward. Should we expect another 7 percentage point benefit in third quarter, something less in 4Q and then nothing thereafter? That's the first question. Secondly, on DUOBRII, Joe, obviously, you got a label that you're wishing for. But our prayers in anyway trying to limit refills or duration or we do not know yet. And then lastly, going back to China question, are there any sort of dynamics that you would like to highlight, of course, in terms of the structure inside your business and good things and bad things going on in China that we should be aware of?

Paul Herendeen

It's Paul. I'll take that first one. With respect to sets on rifaximin, I'm not going to guide and say, we have 700 basis points in Q2 versus Q2 of 2018 and say what it will be in Q3. But I think it will continue to be a strong benefit to the brand in Q3 and then significantly, less in Q4 and beyond as we kind of put all of the improvements where we're lapping the improvements and it kind of goes away as a growth driver, and will then we be limited to what can we generate in terms of unit growth, I mean, that TRx growth is still high single digits, and the team Mark and his group are doing a great job there. And secondarily, there may be the opportunity for a little bit of price as well.

Joseph Papa

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On the question on DUOBRII, first and foremost, thank you for coming on the label. I absolutely agree, the label is truly outstanding. I'd invite everyone on the call, just to take a look at the label and especially comparing to other previous [indiscernible] steroid labels. The most important comment I can say on the label, which I think is critical is that for the first time, physician can use a high potency corticosteroid product in the combination with the retinoid that allows the physician to tree -- to clearance rather than being limited by a certain duration. We think that's a very important comment. The second comment I'd offer on the question of managed care, we did a budget impact model in managed care that shows that for every million lives that are in the health regional plan, by putting DUOBRII on formulary, they can save between $1 million to $1 million to $5 million per year by putting DUOBRII on the formulary.

And essentially what the simplistic way I would say that, it allows the patient to use a topical product for a longer duration to potentially delay the need to go to a high-priced biologic, which may be in $50,000 per patient per year type of range. So that's clearly, we think the real benefit. We haven't seen any limitations on refills at this time. I wouldn't expect that because the reality is, for every time managed care plan keeps the patient on DUOBRII, that's one less patient potentially that would extend or go towards a biologic, which some patients are going to need biologic but clearly, we think often we'll be able to keep patients at a much lower cost of therapy. We are talking in the range of $50,000 for the biologic, less than one tenth of that for the DUOBRII.

On the question of China dynamics, I think I would simply say that, China clearly is the biggest -- the number one player in the overall contact lenses business. Ballpark, looking at the Vision Care business and contact lenses, it's about a quarter of the business for us, it's coming out of China as a percentage of our overall Vision Care business. So clearly, it's important to us. But I think relative to our eyedrops, that's the other place we are number one in China. So we feel very good about both of them. And we don't see any real big -- it's not exactly part of your question, but I will say, we don't see any major constraints that's happening at this time based on all of our production for the eyedrops is based in China, so we are producing locally in China.

Paul Herendeen

So you mean, probably -- Greg, it's Paul again. You probably saw the [indiscernible] recently and just point out, that's all taken into account. In our guidance, it certainly was not helpful to us. But it's all baked into our guidance as well. And the other thing I would say that's good is when people think about tariffs and in the trade situation is a good chunk of, again, to the point, good chunk of our lenses are manufactured in Ireland and we have our consumer facility, assisted facility to another facility in the U.S., we have in Milan, so can supply product to China so well. We are impacted. It's all taken into account within our guidance and it's been manageable so far. I guess, we can't forecast how much worse it could get, but so far so good.

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Operator

The next question comes from Jason Gerberry of Bank of America.

Jason Gerberry

A couple here. Just first maybe Joe, what's the -- I realized it's early. But what's the general opportunity in your mind for amiselimod in the S1P space just given there are number of competitors ahead of you aiming to improve upon the CB safety profile of different drugs in that class? And then my second question, just thinking about the Significant Seven sales and guidance for the full year, can you talk a little bit -- it looks like $100 million in the first half revenues generated by Sig Seven products. How do you think about that second half step up? Is it mainly just DUOBRII or you are expecting good revenue conversion on DUOBRII in the back half?

Joseph Papa

Okay. So a couple of good questions here. Amiselimod, we think it's an important opportunity for us. We absolutely understand that there is a cardiovascular question that we're going to address. We are going to address it with a study that we are going to start and get accomplished by approximately end of the year. So we'll get that either positive or negative. We'll get that question the answers very quickly and get that behind us so that we can go forward. On the area of what we view in terms of benefit of amiselimod, we clearly believe that it has a longer half-life, which could be better dozing. But we obviously got to do the Phase II trials that we talked about to try to find out what exactly the opportunity is for us there. On the question of Significant Seven in 2019 guidance, we feel very good about where we are. First half, approximately $120 million of thereabouts, but more importantly, accelerating 76% versus the first half of 2018. So we think we're on the right track to be approximately $300 million. So we need to grow a little faster but clearly, we are right on track with what we expect for the launch especially now that we've got DUOBRII in the marketplace, the AQUALOX product in Japan. So all of them are now launched and going in the right direction. Very pleased with the results.

Operator

The next question comes from David Risinger of Morgan Stanley.

Zhu Shen

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It's Zhu Shen on for David Risinger. Two quick question today. Could you please discuss the Vision Care business momentum going into the second half including key drivers ahead? And could you also talk about some of the cash flow impact to know in the second half?

Joseph Papa

Okay. I'll take the first Vision Care and probably do the cash flow. Clearly, what's happening in our Vision Care business, we have very strong growth with our Biotrue, with our ULTRA, so it's new products generated. But if you look at the data that we presented in the chart; you can see quickly that we are outgrowing the market. If you look at our performance in the U.S., Bausch + Lomb contact lenses being up approximately 13%, market being up about 8%. It is a globally being up about 8% versus market 5%. So clearly, we are taking share, mostly behind the success of our new product as being number one factor. Longer-term, I've got to repeat this because I think it's truly environmentally a big issue. There's a mega-trend that the incidents of myopia is continuing to climb.

Unfortunately, we all spent too much time on those four screens in front of you right now and looking at your phone and computers. We're spending a lot of time on screens and even kids are spending time on computers, iPads, et cetera. That is we believe one of the problems less time outside. This myopia epidemic is something that is real. You can't see a doubling of myopia in 40, 50 years and call it genetic. It has to be environmental and we think it's supreme time and time kids spent in doors with video games versus outdoors playing with sporting activities. So we think it's real. We think it's going to be a mega trend, that's going to continue to drive it. And I am delighted to say that, as we look at myopia and our work, we have over $100 million of product sales, not including the lenses, directed towards helping to try to improve the lives of patients with myopia. So we are very excited about what we think the opportunity for us with the most integrated eye care platform we have and how we can help these patients. Paul, do you want to take the second part about cash flow?

Paul Herendeen

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Sure. As I mentioned, we have our guidance that we expect to have cash flow from -- generate from operations in the range of 1.5 to 1.6 for the year. If you're thinking about the second half of the year, call your attention to couple of other slides, it's the other financial information you look at it year-to-date and compare that back to the guidance couple of things to point out. The contingent consideration of milestones year-to-date were 22. Full year is expected to be 50. The restructuring other is 32. So far year-to-date is expected to be 50. So little bit more to come. CapEx is actually weighted towards the second half of the year. We are 1 0 9 through June 30. The guidance was for 2 75. So that's a fair amount more. And that is reflective of our -- us continuing to ramp up the activities for the production of daily silicone hydrogel lenses for launch in the U.S. and also in other markets as well. So those are the ones I would call out. I'll say it again, though remember that Q3 is should be a stronger cash flow quarter because of less interest that settles during Q3, and then Q4 is a little weaker because of interest that settles in Q4. So those are the things I point out from a cash flow perspective.

Arthur Shannon

Probably we have a time for just about two more questions.

Operator

The next question comes from David Amsellem of Piper Jaffray.

David Amsellem

I have a question from a consumer eye care. So on LUMIFY, nice growth in market share. I wanted to get your thoughts on where you think peak share can go here? I mean, there is several other competitors. There is also private label. So where does this product in your view go in terms of [indiscernible] and also if I may miss this, can you give us what the net sales were on LUMIFY for the second quarter? And then second part of the question is just on e-commerce. You cited e-commerce growth for the product. I am wondering if you can elaborate on how you're thinking about e-commerce probably for the consumer eye care portfolio? And how much of that is factored into your expectations for growth over the next few years?

Joseph Papa

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So you got a lot of questions there and I'll try to him them all. But where do I think LUMIFY is going, I'd start with a very simple metric. We believe we have the best product for patients that need a product like LUMIFY for readiness relief to lead the release. In that we deal with from a patient point of view, product that does not restrict arterial blood flow to the eye, it's deals with venous blood flow, which I don't know how you feel, but if I had member friend, I'd always not want to restrict arterial blood flow to someone's eye. So we think we have a better way to treating this any other product out there. That's why we think we're getting the number one recommendation from physicians to use LUMIFY. So that we think is going to be an important driver of our future success. The revenue in the quarter, ballpark of over $11 million was the revenue from LUMIFY in the quarter. So we're very pleased with where that's going in the direction of the growth there for us on LUMIFY. On the question of e-commerce broadly.

We think the team led by Joe Gordon is just doing an outstanding job and also Tom internationally on what we're doing with our overall consumer business. The two of them have come up with programs and initiatives both and I globally to help drive our business. I mean if you look at the performance of PreserVision, Ocuvite, those vitamins are doing very strong. And we think that's how a large part of it is tied to this need for better products for Ocuvite health. So that's what we are planning to do. We are planning to launch this line extensions to be absolutely, clear. We launched Luma fiber look to us, to look at not just readiness and I but also putting a combination product out there with class either on other product to make sure. That we apparently have the right now but also the allergy guys. Look to us as more things in the future that help expand this category and help us to grow it beyond where it is today.

Paul Herendeen

It's Paul. A couple of factoids on the consumer business. I mean, that consumer business is if you take a bigger bite in relation to for our entire business, it's like 17%, 18% of our total business. It is the largest contributor to the B + L/International segment, very important segment to us, and I think being really well run by Tom internationally and in the U.S. So we're really doing well.

Arthur Shannon

Operator, we have time for the last question.

Operator

Yes. The last question for today will come from Louise Chen of Cantor.

Louise Chen

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So first question I had with respect to capital allocation. I was wondering if you could give us an update on what you're thickening there? And then second question was just on the timing of new opportunities versus facts. I know you've talked about it earlier. But just curious if you give us some timing. And the last one is on TRULANCE. When you see this increased promotional hitting its stride? What do you think peak sales for this product could be?

Paul Herendeen

Joe, you want to take the capital allocation portion, first?

Joseph Papa

Sure. I'll start on the capital allocation. I mean, first, you see it in our results. I mean, we are spending more in R&D and that's a function of us. And now that we have our legs ensuring drive organic growth here into the future. So we're increasing our spend in R&D. We are increasing our spend in CapEx, which in the Vision Care business is kind of another form of R&D. If you think about what's left over after when you have free cash flow, the waterfall is prioritize that reduction of debt, owing to our high leverage. And then secondarily, if there are opportunities where we can tuck-in acquisitions that fit right within our core businesses, we would very seriously entertain that. I think you saw that with the TRULANCE acquisition earlier this year. But it's pretty straightforward. We're investing in our business and to the extent that we generate cash. We're using that to repay debt. And then, if we see great opportunity, we will go ahead and take advantage of that for business development in our core areas.

Paul Herendeen

And then to the second part of your question, the timing for the new opportunities on XIFAXAN or we looked at the study in the end of this year, in terms of getting data from that. I remind you that is approximately 156,000 [indiscernible] hospitalizations that been growing numbers. So clearly, it's an important opportunity. But most important, that also just give us some good indications for dosing on the SSD opportunity. Beyond that, we talked about patient enrollment beginning in the first quarter of 2020. That's always and there are good opportunity for us. That's going to be predominantly Phase II trial to give us some more information on dose ranging. But we expect that couple of years away, two, three years away, for actual clinical trial results in terms of actually being able to have an opportunity to get an approval or something like trial.

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But remind you that the big opportunity with trail is there is 17 million patients in the United States with IBS-C. There's actually, when you think about it's just an important opportunity in terms of total number of patients out there. And then we also have a trial for postoperative Crohn's. That's about 780,000 patients with Crohn's disease. About 75% of them will need surgery in their lifetime. And unfortunately, about 70% will have recurrence of symptoms within one year. We view that as a trial that we will start in the first half of 2020. We think that's approximately a three year duration to get to something like approval, approximately in terms of time frame. So we're really excited about where we're going with the XIFAXAN trials. We think there's some great opportunities for us. On the final question on TRULANCE, I always say that for any new sales to take up a new product, they have usually, 3 to 6-month hit the ground running. But I will say for us what we believe we now have is the best IBS platform. If it's IBS-C, IBS-D, together with what we have with XIFAXAN plux TRULANCE, we believe the sales reps going to hit the ground very quickly. These are the sales reps that have just done an outstanding job in primary care in the growth of IBS-D. So I would always say three to six months to gain traction, but between us, I'm excited to see this is a great team. They've done great things in the past. I look forward to seeing the results in the future.

Operator, that concludes our comments for today. I thank you, everyone, for joining us today, and look forward to hearing any additional questions that you may have in the near future. But thank you for joining us. Having a great day, everyone.

Operator

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

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