

Company Description: Teva Pharmaceutical Industries Limited is a global pharmaceutical company. The Company develops, manufactures, and markets generic and branded human pharmaceuticals as well as active pharmaceutical ingredients. Teva is based in Jerusalem, Israel.

BUY @ \$21

Current Price: \$22.23

Target Price 1Y: \$25.68

Market Cap: 24B

Avg volume: 9.5M

Shares outstanding: 1B

Debt/Capital 2017: 65%



Thesis:

Teva has a world-leading position in innovating branded treatments, and over 1,000 generic drugs. As the on-going restructuring plan is going as announced, the company is getting more attractive for a long-term investment.

Catalysts:

- Short Term(within the year): **On-going restructuring plan**
- Mid Term(1-2 years): **AJOVY launch in Europe, stabilization in North America**
- Long Term(3+): **Stabilization of generics share**

Q3'18

Earnings Performance and Guidance:

Teva reported revenues of \$4.5B for its 3rd quarter, impacted by a headwind from currency and the Copaxone sales going down due to 3 generics entering the market, the Austedo revenues saw a good growth. Teva reported a Q3 GAAP net loss of \$208M, impacted mainly by impairment charges and recurring amortization of intangible assets (\$297M). The impairment non-GAAP adjustments were regarding product rights and in-process R&D assets acquired in the Actavis Generics transaction. The restructuring program costed \$88M in the quarter, significantly less than the first half of 2018. The revenues of \$4.5B represent a decrease of 19% year over year, mainly due to the generic competition to Copaxone, and price erosion in the US Generics business. The gross margin fell by 200bps due to the same price erosion. However, gross margin saw a slight

improvement compared to the previous quarter this year. The exchange rate (mostly the Russian Ruble, the Argentinian Peso, and the Turkish Lira against the US Dollar) negatively affected revenues by \$80M, and operating income by \$37M. Teva expects and included in the updated 2018 guidance that the Euro will weaken and continue being a headwind in the 4th quarter. The revenues in Europe dropped for the second consecutive quarter, due to the currency and price erosion on Copaxone, that are covering the positive organic growth. Sales in Japan declined, due to negative price regulation changes, and price erosion in the legacy brands products. Other markets were also negatively impacted by the recall of Valsartan, such as Russia, Argentina and Turkey. The trends shown are also explained by the divestiture of the women's health segment, the closure of the Hungarian distribution activities, and the deconsolidation of Venezuela.

Teva started a restructuring program last December, targeting a reduction in Cost of Goods sold, and operating expenses of \$3B in absolute costs. (from \$16.3B in 2017 to \$13.3B in 2019) They are planning to let go of 14,000 employees world-wide, and increase natural currency hedge, especially in Europe. So far, Teva reduced in 9 months the spending base by \$1.8B, and is satisfied with the progress. They had to let go of 9,000 employees, and closed a lot of facilities, they will continue on this path since it is a two-year-plan. In Q3 alone, they reduced R&D expenses and costs, and managed to slow the growth in marketing expenses. Overall, General and Administrative expenses fell by 21% year over year. The long-term target is to have net debt 3 times below EBITDA. They decreased net debt by \$0.8B in the quarter, down to \$27.6B, which is \$3.9B less than when year started. They also issued new corporate bonds during the year to repay some bonds, and get rid of all term loans, also using the FCF.

However, they predict 2019 to be a tough year regarding EBITDA, because of the continuing restructuring plan.

Teva reported a non-GAAP free cash flow of \$704M, an increase of 26% compared to the prior quarter due to less legal settlement and restructuring payments, all of it was used to pay off the outstanding debt. The first quarter free cash flow amounted \$1,894M, including about \$1B of extraordinary items coming from working capital adjustments and settlements.

The updated version of 2018 full year guidance includes a slight increase in revenues to \$18.6-19B, an increase of \$300M only because of the currency headwind, and an adjusted EBITDA margin improvement of 200bps compared to the original plan, up to \$5.2-5.4B. They also increased non-GAAP free cash flow from 2.6-2.8B to \$3.6-3.8B, with a favorable global tax rate of 14%.

Mid-December this year, all the mandatory outstanding convertible preferred shares will be converted, this should increase outstanding common share to 1.1 billion at year-end, but will put an end to the preferred dividend burden.

AJOVY, a preventive migraine drug, was approved on the PDUFA date in September this year. Followed the next week by a very strong launch in North America. Austedo sales keep growing, and Copaxone is maintaining shares, even though prices are going down a little (and affects turnover). AJOVY was shipped one week after the FDA approval, as Teva was in the starting blocks. It is the most flexible Calcitonin Gene-Related Peptide (CGRP) therapy on the market: administered quarterly or monthly, it reduces migraine days for chronic migraines. The expect approval in Europe is mid-2019. They also talk about a promising product: Fasinumab, in phase III (efficacy) in the pipeline, in partnership with Regeneron, which means that only long-term safety remains to be proved. It is a pain therapy not opiate-based, which would reduce pain drugs misuses.

Also, FDA is recommending approbation unanimously on the CT-P10 biosimilar to Rituxan (with partner Celltrion). Generic EpiPen was approved, and is currently launched in the U.S. during the 4th quarter.

The Generic revenues are now stabilizing. Last year, Teva's CEO Kare Schultz announced that they would only remain in profitable generics, and therefore left a portion of the market in 2018.

Business description:

Teva Pharmaceutical Industries Limited has the largest Generics portfolio in the world, along with a wide range of specialty products, and a unique distribution business in Anda. Their portfolio includes over 1,000 generics. In the United States, they are the leader in Generics with 14% market share, and number 2 in Canada with 24% market share. To be noted that's in the United States, 90% of the market are Generics.

In the specialty product segment, they focus mainly on therapeutic areas of the Central Nervous System (CNS), respiratory, pain, and oncology. The major drivers of this segment are AUSTEDO, COPAXONE, and AJOVY. The Anda business is the 4th largest Generic pharmaceuticals distributor, and largest secondary supplier in the US.

Europe represents around 27% of sales, that should face a high single digit growth in the future years.

Teva also offers a free patient support for those who take their treatments, such as injection training for at-home administration.

Here are the main specialty products in Teva's portfolio:

- AJOVY: launched the week of September 24, 2018, AJOVY is a flexible migraine prevention treatment with quarterly or monthly administration, and can be injected at home. For that purpose, Teva offers auto-injectors, and will also offer a prefilled syringe for people less confident with self-injection. The product is easily accessible to both prescribers and patients (24 to 48 hours) across the US. 20% of the prescriptions seem to be for quarterly doses, which are sold 3 times the price of a monthly dose. Headache specialists and neurologists account for 70% of AJOVY prescriptions. Teva is currently negotiating for the formulary access on AJOVY, There exist 3 similar products in term of results, but none in ease of administration (the quarterly dose is unique)
- AUSTEDO: Approved by the FDA in April 2017 and August 2017, can now treats both tardive dyskinesia (an irreversible movement disorder affecting about 500,000 people in the US) in adults and symptoms of Huntington's disease. The drug was also commercialized in Korea in the 2nd quarter of 2017. Teva is currently pursuing AUSTEDO as an indication for Tourette syndrome, that could result in an additional use in the US within 12 to 24 months. As of Q3 2018, it represented \$62M in revenues for Q3 2018, falling in the guidance of \$200M for 2018. This drug has a long patent protection
- COPAXONE: The first generic was approved in Q4 2017, but the drugs still remain the market leader with 77% of the market share. More generics are being approved (3 for now), which will lead to higher price reductions and lower volumes. Copaxone is a 3-times a week injection for people diagnosed with relapsing forms of Multiple Sclerosis.

There are more specialty products currently in Teva's pipeline, presented below:

Phase 2

Phase 3

Registration

Recent Approvals

Fremanezumab
(anti CGRP)

for Post-Traumatic Headache

Fremanezumab
(anti CGRP)

Cluster Headache

Fremanezumab
(anti CGRP)

Migraine (U.S. & E.U.)

Austedo ®

Huntington Disease
(U.S.)

Fasimumab¹

Chronic lower back pain

Fasimumab¹

Osteoarthritis pain

ProAir® e-Respiclick®

E-connectivity
(U.S.)

Austedo ®

Tardive dyskinesia
(U.S.)

Laquinimod

Huntington disease

Austedo® (SD-809)

Tourette syndrome
(U.S.)

CT-P10²

(proposed rituximab
biosimilar)
(U.S.*)

Azilect®⁴

Parkinson's disease
(Japan)

CT-P6²

(proposed trastuzumab
biosimilar)
(U.S.*)

ArmonAir® RespiClick®

Asthma
(U.S.)

BENDEKA ®⁵

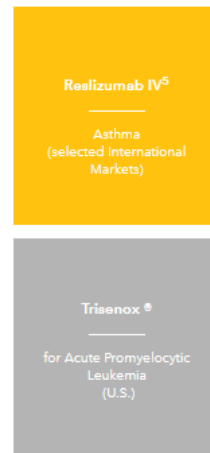
CLL and NHL
(Selected International
Markets)

AirDuo® RespiClick®

Asthma
(U.S.)

QVAR®

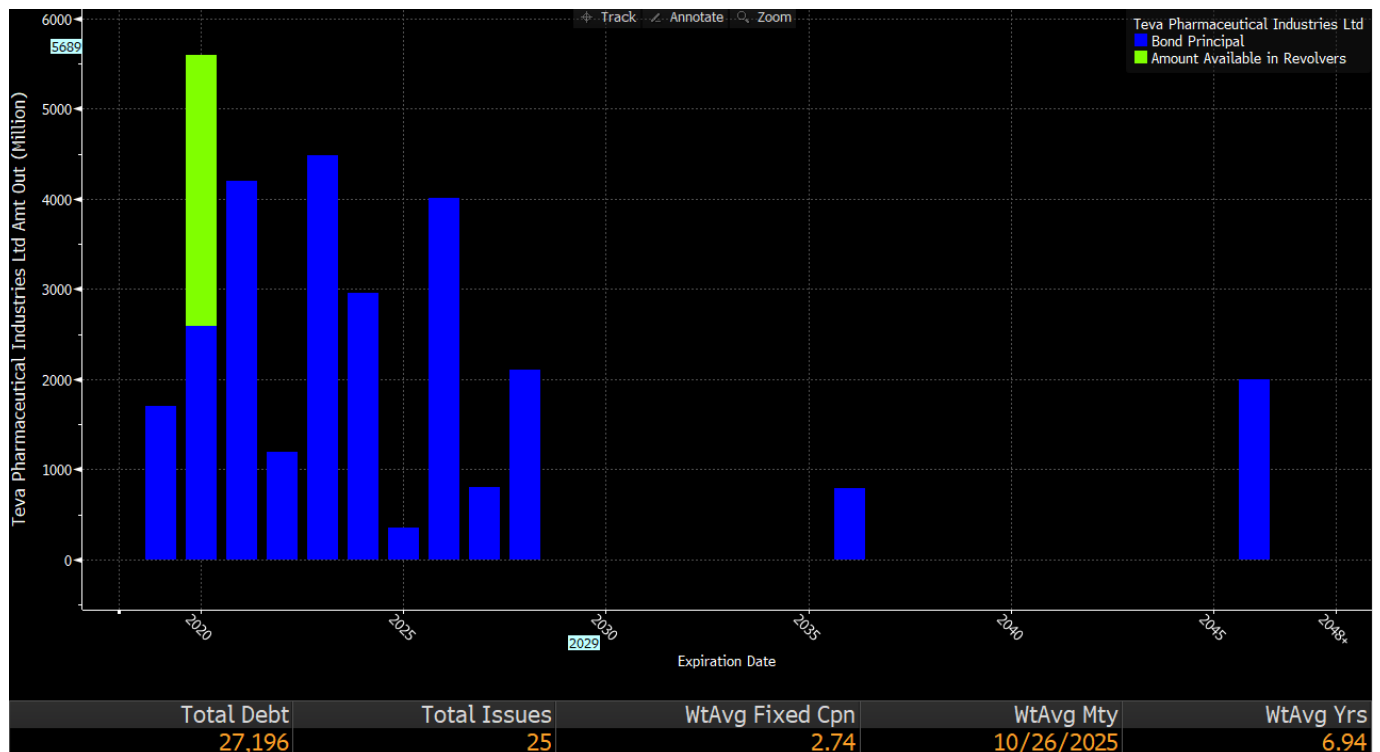
* (beclomethasone
dipropionate BAI)
Asthma (U.S.)



Debt:

Teva's outstanding debt is composed 24 issues of \$27,196M of Senior unsecured bonds with an average maturity in October 2015, that were issued in both USD, EUR, and CHF, and \$3,713M of preferred debt and \$3B in Senior unsecured Loans. The unsecured bonds alone represents 1.13 times the market capitalization.

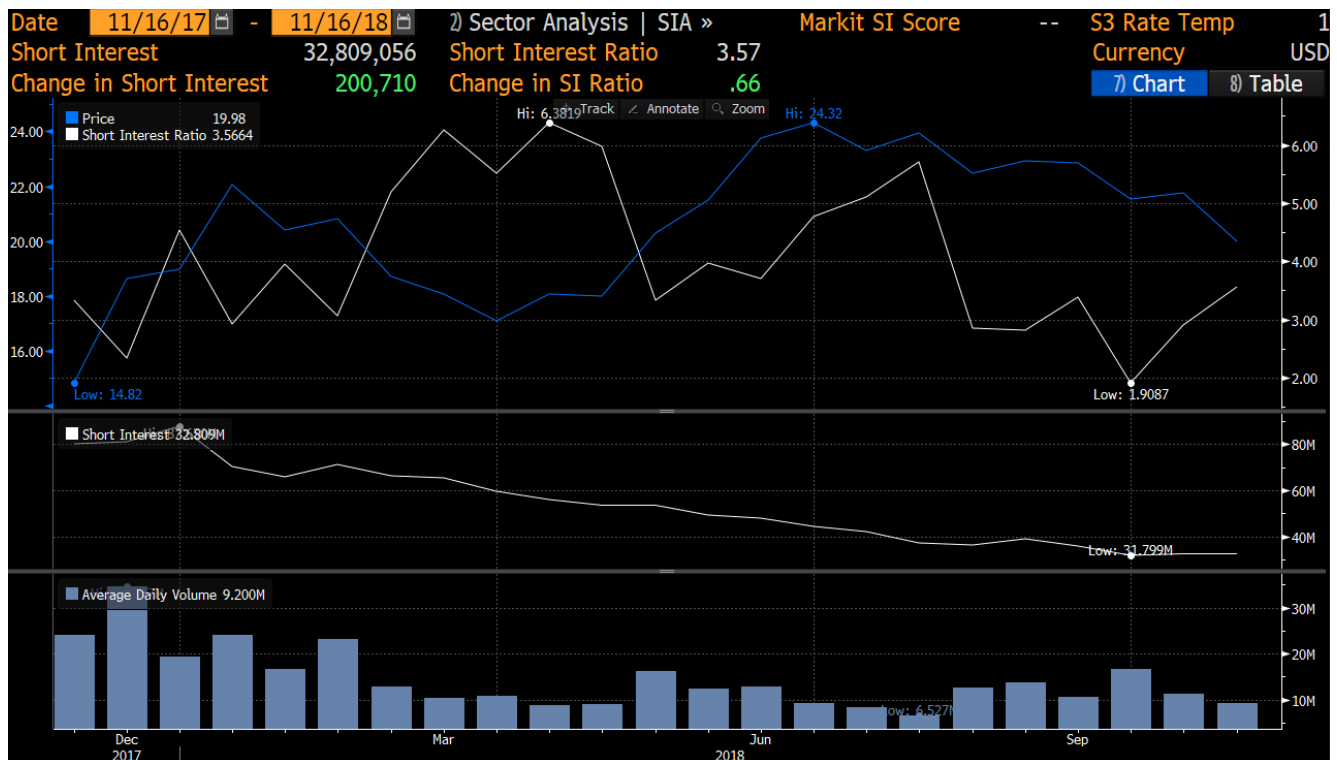
Here is Teva's maturity schedule:



Ownership:

The main holders of Teva's publicly traded shares are Capital Group Company with 16.33% of the float, Franklin Resources Inc. with 9.95%, and Berkshire Hathaway Inc. with 4.25%. Insiders own 0.38% of the current float. Over the past year, short interest has decreased due to the restructuring plan going as announced.

Compare Current Stats Against 11/12/17							
Institutional - Based on Current Filings				Insider - Based on Last 6 Months			
51) Institutional	11/12/17	Curr	Change	52) Insider	11/12/17	Curr	Change
11) % of Shares Held	69.1	86.74	+17.64%	21) % of Shares Held	0	0	0.00%
12) % of Float Held	-70,140,101	-84,004,985	-13864883	22) % Chg Insider Positions	NaN	NaN	NaN%
13) # of Institutions	965	878	-9.02%	23) # of Insiders	0	0	
14) # of Buyers	324	264	-18.52%	24) # of Buyers Opn Mkt	0	0	
15) # of Sellers	319	238	-25.39%	25) # of Sellers Opn Mkt	0	0	
16) # of New Buyers	106	121	+14.15%	26) # of Shrs Bought Opn Mkt	0	0	
17) # of Selloffs	228	104	-54.39%	27) # of Shrs Sold Opn Mkt	0	0	
18) % Chg in Inst Positions	+0.11	+4.11	+4.00%	28) Avg Opn Mkt Buy Price	0	0	0.00
				29) Avg Opn Mkt Sell Price	0	0	0.00
Top Geographic Ownership (%)				Top Ownership Type (%)			
53) Geographic	11/12/17	Curr	Change	54) Ownership Type	11/12/17	Curr	Change
31) UNITED STATES	80.29	84.29	+4.00%	41) Investment Advisor	84.2	81.24	-2.96%
32) BAHAMAS	4.23	4.1	-0.13%	42) Hedge Fund Manager	5.55	6.62	+1.07%
33) CANADA	2.19	2.51	+0.32%	43) Corporation	0.02	4.29	+4.27%
34) JAPAN	1.92	1.45	-0.47%	44) Pension Fund	2.08	1.92	-0.16%
35) LUXEMBOURG	1.04	1.17	+0.13%	45) Bank	1.49	1.47	-0.02%
36) UNITED KINGDOM	2.32	1.14	-1.18%	46) Insurance Company	2.49	1.22	-1.27%
37) ISRAEL	2.25	1.13	-1.12%	47) Government	1.42	1.14	-0.28%
38) NORWAY	2.03	1.05	-0.98%	48) Sovereign Wealth Fund	1.98	1.11	-0.87%
39) SWITZERLAND	1.09	0.98	-0.11%	49) Brokerage	0.48	0.69	+0.21%



Conclusion:

Teva is a highly leveraged company, but is delivering on its restructuring plan as announced. Q3 earnings shows that the bleeding related to the drug Copaxone is managed, they maintain a 77% market share despite the new generics, and has stabilized revenues on the US Generics market. The key negative driver for Teva in the near future will remain the Copaxone sales going down, but will be compensated by the large current pipeline, as well as AJOVY sales world-wide. Europe expressed on November 16 a positive recommendation for Ajoy's approval. As the debt burden is actively reducing, Teva gets more attractive. For these reasons, I recommend a long-term buy on Teva Pharmaceutical Industries Limited (TEVA).

Teva Pharmaceutical Industries Limited (TEVA)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Lapras

11/17/2018

Current Price:

\$22.25

Intrinsic Value

\$29.86

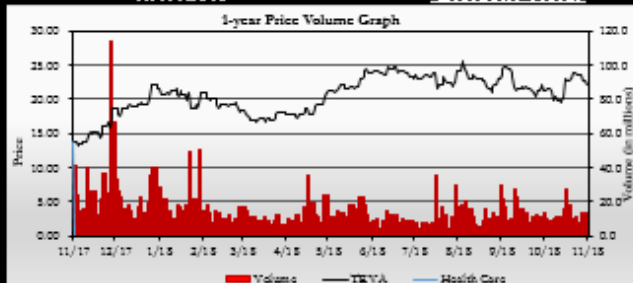
Dividend Yield:

0.0%

Target Price

\$25.03

Target 1 year Return: 12.49%
Probability of Price Increase: 100%



Description	
Teva Pharmaceutical Industries Limited, a pharmaceutical company, develops, manufactures, markets, and distributes generic medicines and a portfolio of specialty medicines worldwide.	
General Information	
Sector	Health Care
Industry	Pharmaceuticals
Last Guidance	May 8, 2018
Next earnings date	February 8, 2019
Market Assumptions	
Estimated Equity Risk Premium	5.41%
Effective Tax Rate	14%

Market Data	
Market Capitalization	\$22,666.80
Daily volume (mil)	9.35
Shares outstanding (mil)	609.29
Diluted shares outstanding (mil)	1017.50
% shares held by institutions	62%
% shares held by investment managers	51%
% shares held by hedge funds	6%
% shares held by insiders	0.50%
Short interest	3.22%
Days to cover short interest	2.72
52-week high	\$25.96
52-week low	\$12.71
Volatility	38.66%

Quarter ending	
9/30/2017	0.36%
12/31/2017	3.02%
3/31/2018	5.65%
6/30/2018	-1.38%
9/30/2018	-0.46%
Mean	-1.44%
Standard error	1.0%

Part Earning Surprises	
Revenue	EBITDA
9/30/2017	-21.23%
12/31/2017	-12.48%
3/31/2018	7.41%
6/30/2018	-4.15%
9/30/2018	0.00%
Mean	-6.09%
Standard error	4.6%

Industry and Segment Information	
LTM Revenue by Geographic Segment	LTM Revenue by Business Segments
United States--53%	--
Europe--27%	--
Rest of the World--19%	--
--	Other Activities--15%
--	--

Management	
Schultz, Kara	President, CEO & Director
McClellan, Michael	Executive VP & CFO
Sabag, Mark	Executive Vice President of Global Human Resources
de Nativitat Fani, Carla	Executive Vice President of Global Operations
Fridriksson, Hafun	Executive Vice President of Global R&D
Griffin, Deborah	Senior VP & Chief Accounting Officer

Total Compensation Growth	
0% per annum over 0y	0% per annum over 0y
0% per annum over 0y	0% per annum over 0y
0% per annum over 0y	0% per annum over 0y
0% per annum over 0y	0% per annum over 0y
0% per annum over 0y	0% per annum over 0y
0% per annum over 0y	0% per annum over 0y

Peers	
Allergan plc	Jazz Pharmaceuticals plc
Mylan N.V.	Amgen PLC
Perrigo Company plc	China Resources Pharmaceutical Group Limited
Bristol-Myers Squibb Company	MERCK KGaA
Eli Lilly and Company	Endo International plc

Profitability	
TEVA (LTM)	TEVA Historical
Return on Capital (GAAP)	4.6%
Operating Margin	17%
Revenue/Capital (GAAP)	0.27
ROE (GAAP)	5.9%
Net margin	10.2%
Revenue/Book Value (GAAP)	0.58

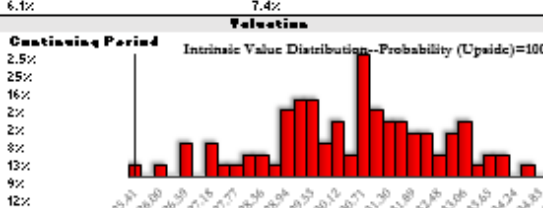
Peer's Median (LTM)	
Return on Capital (GAAP)	9.56%
Operating Margin	22.38%
Revenue/Capital (GAAP)	0.43
ROE (GAAP)	6.6%
Net margin	9.9%
Revenue/Book Value (GAAP)	0.67



Invested Funds	
TEVA (LTM)	TEVA Historical
Cost of Capital	4.7%
WACC/Capital	0.4%
Operating Assets/Capital	35.2%
Goodwill/Capital	59.7%

Peer's Median (LTM)	
Cost of Capital	9.8%
WACC/Capital	0.0%
Operating Assets/Capital	56.2%
Goodwill/Capital	27.3%

Capital Structure	
TEVA (LTM)	TEVA Historical
Total Debt/Market Capitalization	0.65
Cost of Debt	2.8%
CGFS Rating (F+care, Z+care, and default Probability)	CC
WACC	8.1%



Sensitivity Attribution Analysis	
Revenue	31.5%
Operating costs	33.7%
Capital expenditures	3.4%
Discount Rate	31.7%