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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by, and welcome to the third quarter 2018 financial results conference call. (Operator Instructions) I must advise that this call is recorded today, on Thursday, 1st of November, 2018.

And I would now like to hand over to your first speaker today, Mr. Kevin Mannix, Senior Vice President, Investor Relations. Please go ahead.

Kevin C. Mannix ***Teva Pharmaceutical Industries Limited - Head of Global IR & VP***

Thanks, Tracy. And thank you, everyone, for joining us today to discuss Teva's third quarter 2018 financial results. We hope you've had an opportunity to review our earnings press release which was issued earlier this morning. A copy of this PR, as well as the copy of the slides being presented on this call, can be found on our website at www.tevapharm.com as well as on our Investor Relations app.

Please note that our discussion on today's call includes certain non-GAAP measures as defined by the SEC. Management uses both GAAP financial measures and the disclosed non-GAAP financial measures internally to evaluate and manage the company's operations to better understand its business. Further, management believes the inclusion of non-GAAP financial measures provides meaningful supplementary information to and facilitates analysis by investors in evaluating the company's financial performance, results of operations and trends. Reconciliation of GAAP to non-GAAP measures are available in our earnings release and in today's presentation.

To begin today's call, we will hear from Kåre Schultz, Teva's Chief Executive Officer; Brendan O'Grady, Teva's Head of North America, Commercial; and Mike McClellan, our Chief Financial Officer. We will then open the call for a question-and-answer session that will run to approximately 9 a.m. Eastern Time.

And with that, I'll now turn the call over to Kåre. Kåre, if you would please.

Kåre Schultz ***Teva Pharmaceutical Industries Limited - President, CEO & Director***

Thank you, Kevin. And thank you to all of you for listening in. Today, on the date, it's 1 year ago since I joined Teva. It has been an exciting and challenging year. And I'm very happy about the results that we have achieved. I would like to thank today all our shareholders for the trust and confidence they put in me and in the company. And I hope that the results I'll be sharing with you show that we take your trust very seriously, and we will do our utmost to live up to your expectations.

In the third quarter, we had revenues of USD 4.5 billion. We had headwind from currency, we had headwind from COPAXONE sales going down and we had positive elements coming from different parts of the specialty business, including AUSTEDO and other products that are growing.

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Overall, we saw GAAP diluted loss per share of $0.27 and non-GAAP diluted earnings per share of $0.68 which was slightly better than our own expectations.

The free cash flow came in at $700 million, and it's a continuation of the parts of cash flows that we see a quarter-by-quarter all of it basically being used to reduce debt.

As you know, we started the big restructuring program a little more than a year ago. The program is very much on track. We see a significant reduction in our spend base. In 9 months, we reduced the spend base by $1.8 billion, and we're very satisfied with the progress we're making here.

I'm also very happy that we had the approval of AJOVY. You remember at our last call, we were predicting that the most likely was on the PDUFA date in September, we would get AJOVY approved. That happily happened. And what's even more important is that we're seeing a very strong launch of AJOVY and later on, Brendan will comment on it and share some of the details. But I can tell you, it looks very good and there's a strong acceptance including of the quarterly dosing. AUSTEDO continues to grow very nicely, and we're also seeing COPAXONE maintaining its share very nicely. We do see, of course, a slow decline in pricing, which affects the turnover, but we're basically maintaining, by far, the lion's share of volume in the marketplace.

Our generic revenues are, as we've been talking about last couple of quarters, now showing clear signs of stabilization. It's too early to conclude firmly, but I think there's a very high likelihood that we're seeing a stabilization, both if you look at the second quarter and the third quarter and how we look at the rest of the year. We think that the actions we've taken on pruning our loss-making portfolio on explaining to the marketplace that we only want to be in generics that are profitable. It's unsustainable to supply products that do not make a profit. And we have left a small portion of the market to other competitors, who are willing to supply. We wish them good luck, but it's not a business that we intend to be in.

The net debt has been decreasing by $0.8 billion and is now down to $27.6 billion. That's roughly $4 billion less when the year started.

Based on the good performance we've seen in the third quarter, we're increasing our guidance for the full year. The non-GAAP EPS earnings, we're taking up from $2.55 to $2.80, which was the previous band, to now a band to $2.80 to $2.95. Of course, where we end depends on all the swing factors we have constantly on currencies, on pricing, on launches and so on, but we think we'll be close to this range.

The free cash flow, also based on the strong performance in the third quarter, we're taking up from an estimate of $3.2 billion to $3.4 billion to now $3.6 billion to $3.8 billion.

Now I'd like to explain just a little bit about the spend base and the restructuring program. The restructuring program was announced mid-December last year. So we're, sort of, 3 quarters into it at the end of the third quarter. What we've seen is a spend base reduction. And let me just repeat as I've said every quarter, when we talk about the spend base we talk about all our costs. So the non-GAAP COGS, operating expenses, everything basically, and it's including currency effects, it's including everything. The reason why we did this way from the beginning was that we set a target for the restructuring of $3 billion reduction. And I had this criticism that, okay, people say something of a cost reduction, but they then always come with all kind of excuses, dynamic effects, currencies, they decided to do something else. So I wanted to make it clear that no matter what happens, we will take the absolute cost down from the $16.3 billion it was in a 2017 to $13.3 billion or below in 2019. So that's a straight $3 billion.

Now how far have we come with that. In 2018, the first 9 months, we reduced the spend base by $2 billion, and then because we've seen the dollar strengthen overall, we've had a headwind from currency. So that the net reduction, which is really what we're talking about when we're talking about the target of $3 billion, the net reduction is $1.8 billion. Now the target for this year in the restructuring plan is actually only $1.5 billion. However, that doesn't change the fact that the target for 2019 is $3 billion. So with the $1.8 billion net for the first 9 months and a bit more to come, hopefully, in the fourth quarter, then of course, we will be meeting our target in 2019 of $3 billion in spend base reduction. Now this doesn't come easy. We've had to close a lot of facilities. We had to say goodbye to a lot of employees, more than 9,000 employees since the start of the restructuring plan. And this will, to some extent, continue, because it's a 2-year plan

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that includes all of '18 and all of '19. So you will see a further reduction during the coming 5 quarters. As you might remember, the total reduction of manning is 14,000 in the restructuring plan.

Now let's take a look at the net debt. I told you that the net debt was reduced actually by $3.9 billion since the end last year, so in the 9 months of this year. And as you remember, we did a issuing of new corporate bonds and we used that money to get rid of all term loans, but also to repay some bonds. And then on top of that, of course, the cash flow we have been generating has been used to reduce the net debt. If you look at the net debt now, it's down to a $27.6 billion. We have $1.9 billion in cash and the gross debt is now, for the first time, below $30 billion, which is very positive. And as you know, we have a long-term financial target. We want the net debt to be below 3x EBITDA. So that basically means that in the coming years we will continue to use the majority of our cash flow to reduce debt until we reach that target.

I would also like to address some of the very nice developments we've seen in our pipeline. So let me just point to 4 significant events. I already mentioned the fact that AJOVY was approved as planned on the PDUFA date and that we were ready -- I can tell you, I went to the launch meeting and we started that on Tuesday and that was based on the approval we got on Friday. So it didn't work out the way we wanted and we had the product in the marketplace basically being shipped the same week. And we had the first scripts coming in the week after with all the sales force on the Street promoting AJOVY. So I'm very happy about the execution there. I'm sure Brendan will tell you more about it. I'm also very happy that we have the most flexible CGRP therapy. You can take your therapy once a month or you can take it once a quarter, whatever suits you best. It has the same excellent clinical profile reducing your number of migraine days.

We also, kind of, bring this innovative very good product to Europe. We expect to get approval the first half of 2019, and we will eventually bring it to all markets, where we're commercially active around the world to the benefit of patients and strengthening, of course, our revenues.

We also have a very exciting pipeline project in Phase III together with our partner Regeneron, fasinumab. You probably noticed that we announced top line Phase III results on efficacy and we see very good efficacy with the lower doses. So what remains now is the long-term Phase III trial. We need to see that the safety comes out okay. If we look to competing project and the signs that you can get an acceptable safety profile, which in this case will make this pain therapy, which is not an opioid-based therapy, so it's not creating the same risk of misuse that you see with opioids. So it will be a very welcome addition to pain therapy in the U.S., if it makes it all the way through, which I hope.

We also had progress on the biosimilar field. In the U.S. together with our partner Celltrion, we have what's called CT-P10, it's a proposed biosimilar to Rituxan. Rituxan being a significant product. And I'm very happy to say that the FDA advisory committee unanimously recommended to approve this product. So we're looking forward to launching it. We've also settled with Genentech on the patent litigation. As you know, I can't comment on the actual date of launch, but just rest assured that we are planning it and we are looking forward to it.

With regards to other generics, it was a great pleasure to see the generic EpiPen of ours being approved. We are right now getting ready for a launch during the fourth quarter here in the U.S., and we will be ramping up our -- or we are ramping up manufacturing and that will result in increased supplies during next year, and we hope to be able to help alleviate the supply constraints that have existed for this type of product by the wide distribution of generic EpiPen during next year.

As you can hear a lot of these exciting news related to the U.S., also to the rest of the world, but primarily to the U.S. And I think, we should ask Brendan to give us a bit more details on our U.S. and North American business. Please, Brendan.

Brendan O'Grady ***Teva Pharmaceutical Industries Limited - EVP of North America Commercial***

Thank you, Kåre, and good morning to everyone on the line. Today, I'm going to give you an overview of the North American business, and I will start with a high-level summary of the U.S. generic and specialty business as well as our Canadian and ANDA businesses. Teva is positioned as a dynamic and diversified pharmaceutical business within the North American health care sector. We have the largest generics portfolio in the world, a wide range of specialty products as well as the unique distribution business in ANDA. Strategic investments in AUSTEDO and AJOVY, which I'll discuss in more detail on the coming slides, play a significant role in our long-term plan

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to stabilize and grow our business. The combined businesses in U.S. and Canada will collectively deliver $9 billion in revenue in 2018. In looking at each of the businesses separately, I would first focus your attention on U.S. generics, where we continue to be the market leader with approximately 14% share of U.S. generic market, backed by stable future product launches and increased price stabilization.

As I mentioned earlier, the major growth drivers in the pharma -- in the specialty business come from AUSTEDO and AJOVY, while we maintain our specialty focus in our primary therapeutic areas of CNS, Respiratory and Oncology.

Taking a quick look at Canada, our share of the generic market is 24% making us the #2 generic player in Canada and very close to #1 with drivers similar to the U.S.

Lastly, our ANDA business is the fourth largest distributor of generic pharmaceuticals and the largest secondary supplier in the U.S. It offers a wide range of solutions for many manufacturers and customers, and we continue to both optimize that business as well as look for creative ways to evolve the ANDA model internally and for our external partners.

Now turning to Slide 10. I would like to provide an update on AJOVY, AUSTEDO and COPAXONE, and I'll first start with AJOVY. AJOVY demand has grown steadily and thus far, we are pleased with the trajectory. We have seen a very positive response to the flexibility of quarterly and monthly dosing and are focusing our efforts on providing a best-in-class customer experience for both patients and prescribers, starting in the physician's office and continuing through the access and administration of the product. Health care providers appreciate the expertise Teva brings with our patient support programs and patients can easily access AJOVY without delay. Doctors are pleased to receive samples within 24 to 48 hours of ordering and have reported very few administrative hurdles. Most patients have had their prescriptions filled within 24 to 48 hours through both retail and specialty pharmacies across the country.

Turning to Slide 11. I want to point out that the commercial launch of AJOVY, as Kåre said, began the week of September 24 with our sales force calling on physicians and the product available in wholesalers and pharmacies nationwide. When comparing prescription trends across the anti-CGRP treatments, it is important to account for quarterly prescriptions of AJOVY, where one prescription represents 3 months of drug treatment. We refer to the revised number as normalized total prescriptions, or TRX. One quarter of a -- one quarterly prescription equals 3 monthly prescriptions. And we are seeing approximately 20% of AJOVY prescriptions being written for quarterly dosing. You can see from this graph that the uptick in AJOVY's first 4 weeks of normalized TRX is strong. In addition, AJOVY samples are not accounted for in the TRX uptake, and we're seeing many patients start therapy in the physician's office via a sample. Lastly, headache specialists and neurologists account for about 70% of AJOVY prescriptions and the unique subscriber number for AJOVY appears consistent with our competitors over the first 4 weeks.

Turning to AUSTEDO on Slide 12. And as a reminder, the commercial launch for chorea associated with Huntington's disease occurred in the second quarter of 2017 and for tardive dyskinesia in Q3 of 2017. There's a large unmet medical need in U.S. in these areas where Huntington's disease affects approximately 40,000 people, tardive dyskinesia affects approximately 500,000 people and Tourette syndrome affects about 150,000 people and is an indication we are currently pursuing for AUSTEDO. If you look at the right side of the slide, you'll see that net revenues for AUSTEDO continue to grow nicely quarter-over-quarter with Q3 revenues at approximately $62 million. We are on track to achieve $200 million in net sales in 2018 as per our plan. National formulary access is strong across commercial Medicare Part D and Medicaid fee for service for AUSTEDO.

On the last slide for North America, which is Slide 13 for those of you who'll be following along, I will highlight COPAXONE and say that we continue to compete in the MS market and are taking the appropriate measures to preserve market share and maximize profit. Formulary access of 40 milligram COPAXONE remains stable around 90% nationally, and COPAXONE continues to be a market leader with Q3 TRX exit share of 22.7% of the MS market. Of the 40 milligram glatiramer segment, COPAXONE 40 milligram total market share was approximately 77% versus generic 40 milligram at approximately 23%. COPAXONE net sales, as expected, were impacted by generic competition resulting in higher price reductions and lower volumes that you first see in Q4 2017 with the approval of the first generic 40 milligram COPAXONE and further in Q1 2018 with the approval of a second generic 40 milligram. Q3 2018 net sales of $446 million were partially impacted by positive gross-to-net adjustments.

That concludes the review and update of North America, and I will hand it over to Mike McClellan. Mike?

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Michael McClellan ***Teva Pharmaceutical Industries Limited - Executive VP & CFO***

Thank you, Brendan. Good morning, everyone. I hope you've had a chance to review the press release we've issued earlier this morning. I'd like to take some time now to review the numbers for the quarter and provide some more detail on our updated outlook for 2018.

So turning to Slide 15. We start with a review of our GAAP performance. We posted a quarterly GAAP net loss of $208 million and a loss per share on a GAAP basis of $0.27 during the third quarter of 2018. As we will detail in the next slide, the GAAP results were impacted mainly by impairment charges and recurring amortization.

So turning to Slide 16. Looking at our non-GAAP adjustments. The largest were due to the impairment of product rights and in process R&D assets acquired in the Actavis Generics transaction. In addition, we had amortization of intangible assets totaling $297 million, which is consistent with prior quarters.

Restructuring charges of $88 million in the quarter were significantly lower than the first 2 quarters of 2018 as the majority of the actions have already been recorded.

So looking at our non-GAAP performance on Slide 17. Revenues for the third quarter were $4.5 billion, a decrease of 19% compared to Q3 2017. The reduction in sales was mainly due to generic competition to COPAXONE and price erosion in our U.S. generics business. We also saw a minor impact from the loss of revenues following the divestment of certain products and discontinued business activities. Our gross margins declined roughly 200 basis points compared to Q3 2017 mainly due to the price impacts on COPAXONE and generics in the U.S. However, we did see a slight improvement in gross margin compared to Q2 of 2018.

The cost savings from our ongoing restructuring program, which Kåre highlighted earlier, helped to partially offset the decline in operating income. Non-GAAP EPS came in at $0.68 for the quarter, and we'll talk a little bit more about the trends affecting P&L items and cash flow later in the presentation.

Turning to Slide 18. We see that exchange rate movements during the third quarter of 2018 had a modest impact on the year-over-year performance, negatively impacting overall revenues by $80 million and our operating income by $37 million. The main currencies relevant to our operations that decreased in value against the U.S. dollar were the Argentinian peso, the Turkish lira and the Russian ruble. We expect exchange rate movements including a weakening euro will continue to be a headwind for our revenues in the fourth quarter, and we've accounted for this in our updated 2018 guidance, which I'll cover at the end of my slides.

So turning to Slide 19. We take a look at some of the revenue trends we've been seeing throughout the different segments. We're pleased to see that the rate of sales erosion in our North American generic business slowed significantly, following the expected declines in Q1 and Q2. We believe this is attributable to our ongoing efforts to optimize the product portfolio as well as the introduction of new products. These accelerated rationalization efforts resulted in a reduction of revenue by more than $100 million versus the full year 2017, and we estimate we'll finish the year with the North American generic business having $3.9 billion in revenue and an improved profitability.

In addition, sales of Cuba remained relatively flat in Q3, mainly due to lower volumes in the quarter, following wholesaler stocking in the first quarter of 2018 that was in connection with the launch of the new RediHaler device. This was offset by the uptake in AUSTEDO, which Brendan has covered, and a continuation of the strong performance in our ANDA business.

Revenues in Europe dropped for the second straight quarter, which is mainly attributable to the reversal of a currency tailwind the business had been enjoying as well as some seasonality and price impacts on COPAXONE in Europe. We expect currency will continue to be a headwind for this business, which unfortunately is overshadowing an organic improvement in its profitability.

In International Markets, revenues declined sequentially, driven mainly by lower sales in Japan, which was impacted by adverse changes of pricing regulation in the market as well as expected erosion in the legacy brand products. International Markets have also been impacted by the Valsartan recall situation as well as the unfavorable foreign exchange impacts, primarily in Russia, Argentina and

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Turkey that I mentioned earlier. As you look at the trends, please remember that the divestments and other discontinued operations mainly are Women's Health, the closure of the Hungarian Distribution Activities and the de-consolidation of Venezuela, all had a negative impact on the trends you see when you compare to 2017.

On Slide 20, we take a closer look at the components of our spend base, which was reduced by $1.8 billion in the first 9 months of 2018 and across all spend categories. Cost of goods are gradually declining as a result of the reduction in sales and, to a lesser extent, our ongoing restructuring efforts. We see sales and marketing experienced a lower-than-expected increase compared to Q2 in Q3 2018.

R&D expenses this quarter were lower than the second quarter of 2018 and significantly reduced from Q3 2017 due to lower spend on Phase III programs and other project discontinuations.

Our third quarter G&A expenses decreased by 21% compared to Q3 2017 due to our ongoing restructuring program.

And lastly, there were no significant other income items this quarter, and we do not expect to see significant amount for the foreseeable future.

So turning to Slide 21. Free cash flow for the quarter was $700 million, which is up compared to Q2 of 2018, primarily due to a lower level of legal settlements and restructuring payments, partially offset by a slightly lower non-GAAP net income. I'd like to remind you that we're comparing to the second and third quarter free cash flows, the first quarter had a significant amount of onetime items, approximately $1 billion, coming from the working capital adjustment with Allergan and a few other settlements.

So now turning to the 2018 outlook. As Kåre mentioned in the opening remarks, we are increasing our full year guidance for the third time this year, including increase in earnings per share to the range of $2.80 to $2.95. Our updated guidance reflects our better-than-expected results in Q3 driven by slightly higher sales, a lower level of spending and a favorable tax rate, which more than offset the currency downside that we've seen due to the strengthening U.S. dollar. I'd like to add that we now expect our effective tax rate to be 14% for the full year 2018. Where in these ranges we eventually end the year will be determined by -- mainly by the level of erosion in COPAXONE sales, foreign exchange impacts and, to a lesser extent, the timing of generic launches in the U.S. The guidance also anticipates an increase in spending in Q4 in support of our ongoing launch of AJOVY. We're also adjusting upwards the free cash flow projection to reflect the strong performance year-to-date.

And lastly, I'd like to remind you that mid-December, we will convert all of the outstanding mandatory convertible preferred shares that were issued in December 2015, including shares that may be issued to pay unpaid dividends to date. This will result in a fully diluted share count that will increase to 1.1 billion shares at year-end, but we will no longer have the preferred share dividend affecting our EPS.

So this concludes my remarks, and I'd like to turn over the call back to the operator and start the Q&A session of our call. Thank you very much.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Randall Stanicky from RBC Capital.

Randall S. Stanicky ***RBC Capital Markets, LLC, Research Division - MD of Global Equity Research and Lead Analyst***

Kåre, just a bigger-picture question for you. You've previously pointed to next year as a trough year and the results that you put out today certainly support some of that outlook. As you think about 2021 and 2022, outside of AUSTEDO and AJOVY, can you talk about some of the puts and takes here that may drive that trough '19 outlook and growth beyond? And does the generic result today, which seems stable with potentially improving margins, does that add support to how you're thinking about the outer-year growth?

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Kåre Schultz ***Teva Pharmaceutical Industries Limited - President, CEO & Director***

Yes. So of course, there's a lot of moving parts and it can be difficult to predict exactly when things are going to happen. But I'll be happy to comment on the bigger picture. So the bigger picture, in a way, it's unchanged from what we discussed during the past year. The bigger picture is that we have COPAXONE going down but, of course, as the numbers get less, if you assume certain percentage loss per quarter, so to speak, then of course, the absolutely effect form COPAXONE going generic gets less and less over time. So that's the key negative driver. Then you had one very severe negative driver over the last 3 years, which has been the U.S. generics. I think the actions we've taken have stabilized that situation. The U.S. generics remain extremely attractive from a volume point of view and from a, I would call, inflow point of view, there's no reduction in the inflow of new products coming in over the next 1, 2, 3, 4, 5 years. There's no reduction in our pipeline of ANDAs that we have sitting out there waiting. There's just been a re, you could say, set of the value per successful launch on average. And we've discussed this before, I'll just repeat very briefly that the consolidation on the payer side, the competition with more ANDAs getting approved by FDA, the originator being more creative with dispenses written, all these things that we do and others do, that has all changed the dynamics on the generics. But it has not changed the basic fundamentals that the biggest part of the U.S. market is generics. In many categories, way below 90% of volume is generics. So generics is a good and stable business long term. If you just manage it in a good way, so it's also profitable. I think, we're doing our very best to ensure that it will be profitable. I also think we're at a level now where there's a good chance that it will be sustainable. We still think, in my mind, to see 1 or 2 more quarters before I can promise you that it has stabilized. I think, that's all the signs because the market has basically reacted to what we've been doing. So I think there's a good chance there. So that means you have a stable chunk of your business and you can optimize that, of course, by portfolio management and ensure better margins for the long term by also optimizing your manufacturing footprint and your efficiency. Then you have the International business and if you notice then Europe is actually quite a sizable part of our revenue and our income. It's probably around 28% of revenue and 28% of operating profit. Now that business is very stable, it's doing very nicely. We'll probably have, actually in earnings, the best year ever this year in Europe. The best year we ever had in Europe will be this year, because we're optimizing things. We are putting together facilities, offices, research sites, everything like this as part of the restructuring plan and that's improving the earnings in Europe. So that will remain to be a nice probably single digit growth driver going forward. Then you have the more unpredictable things, such as currencies. We can't say where they're going to go. So on average, you can assume, they're not going to change, but you won't be right anyway. And then you have the, you could say, 2 U.S. uplifts, which are significant, which is, of course, continued growth of AUSTEDO. There's a long patent protection of AUSTEDO going into the future. There's enormous unmet need out there. There's a huge patient pool that's not being treated yet. And you have the same situation with the CGRP product with AJOVY, where you also have an enormous unmet need, a huge patient pool and a very good early launch. But it remains to be seen, of course, what will be the exact slope over the next 4 years of AUSTEDO, what will be the exact slope of AJOVY. And that means there's a lot of moving parts. So it's impossible to predict precisely where it's going to end. But I think, all-in-all, if you look at it, we will have more positive growth drivers in '21 and '22 than we'll have negative. And that's, of course, a cause for optimism.

Randall S. Stanicky ***RBC Capital Markets, LLC, Research Division - MD of Global Equity Research and Lead Analyst***

But you'd still call 2019 an EBITDA trough year?

Kåre Schultz ***Teva Pharmaceutical Industries Limited - President, CEO & Director***

I think it's difficult to say exactly, but the most likely is still that 2019 will be an EBITDA trough year, correct.

Operator

Your next question comes from the line of Chris Schott of JPMorgan.

Christopher Thomas Schott ***JP Morgan Chase & Co, Research Division - Senior Analyst***

My first one was on AJOVY. You've obviously seen some very encouraging volume trends here. But can you talk a little bit more about formulary access and some of your gross-to-net expectations for the product as we watch this launch proceeding? I guess, specifically, do you see most payers covering all 3 of the CGRPs that are available? Or could we see more outcomes like what we heard last month with only 2 of the 3 products being covered?

Kåre Schultz ***Teva Pharmaceutical Industries Limited - President, CEO & Director***

Yes, so I think I'll give just a few general comments and then, I'm sure, Brendan can give you some more details. So first of all, you have to realize what happens every time at product launch. Every time a product launches, there's this whole negotiation element, where the

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PBMs on behalf of their customers will be negotiating with the manufacturers, all the manufacturer launching new product. The whole thing in the United States is quite complex, as I'm sure you all know. It's not just that you negotiate one kind of access with one rebate. You negotiate a whole access grid with different types of access, either you're 1 out of 3, you're 2 out of 3, you're 3 out of 3, there's an NDC block, there's not a NDC block. You have to go through once you prestep at it, there's no co-pay, there's $20 co-pay, there's $50 co-pay. So the whole thing when you get down to the details of it, which I've been enjoying for more than 20 years, is quite technically complex. That being said, of course there are some general trends. And the general trend is, of course, the less competitors there are, the less rebate is given; the more competitors there are, the more rebate is given; the less clinical benefit you have, the more rebate is given; the more clinical benefit you have, the less rebate is given. So I would say, on the clinical side, AJOVY is a fantastic product. It has a unique ease of use in that you can take it quarterly and monthly. So it has some really strong benefits. The CGRP class, in general, has enormous benefit in terms of creating migraine-free days for millions of patients. So on the clinical side, this is a really valuable product. On the counter side, you can say, there are 3 products that are relatively similar in terms of clinical efficacy, not exactly in how you use them, since you can only use AJOVY quarterly, not the others. But they're sort of, similar in the benefit you get in terms of how many migraine-free days you get out of using them. So on that side, you could say, there's more than one competitor, so that, of course, puts more pressure on the actual rebating. That being said, it's a lengthy process and there's a lot of tactics and you'll see a lot of statements coming out, which might be completely straight, might be a part of the negotiations. But Brendan, you can give it some more light on the exact situation right now.

Brendan O'Grady ***Teva Pharmaceutical Industries Limited - EVP of North America Commercial***

Sure. Thank you, Kåre. So negotiations with most of the payers started back in September time frame. Most manufacturers who were in discussions, I expect that most of those discussions will continue through November and even into December as payers decide what they're going to do in 2019. I will tell you that we are still in active discussions with all of the major payers, national as well as the large regional payers and those are proceeding very well. We think that we have some unique benefits, as Kåre mentioned, in the fact that we're the only ones that offer quarterly dosing. And as I mentioned, we're seeing about 20% of patients take advantage of quarterly dosing. So that gives us a little bit different place in the marketplace, because a patient can obviously quite easily inject at home as most patients will, but for those patients that may not want to inject at home, they can either -- and they're usually seeing their physician about every 2 or 3 months anyway, they can either bring the product in with them, have the physician inject it there or there's even potential to do this on the medical site. So it gives us a little bit different of a value proposition, I think, and takes a little bit longer to work through those dynamics with some of the payers. So I wouldn't think that there's any reason for panic about how this class evolves, and I would expect that you will see not everybody on every formulary everywhere, some of the large national plans or PMBs may select 2 of the 3, some may select 3 of the 3. We think that although from a population level that these products are all very similar. At an individual, there may be differences and there may be preferences, and we should probably be wait for this market to form before we rush to those judgments. So those are some of the dynamics that we're working through. As far as the gross to net, I think that, that's part of the discussion that's ongoing. And I think that we're typically seeing in this marketplace probably gross to net evolve somewhere north of 25%, something like that. But it's all very fluid and those discussions are ongoing.

Kåre Schultz ***Teva Pharmaceutical Industries Limited - President, CEO & Director***

So maybe as a concluding remark, Chris, I'm convinced that we will see good access for AJOVY and for the competing products.

Christopher Thomas Schott ***JP Morgan Chase & Co, Research Division - Senior Analyst***

I have a follow-up on that 25% gross to net. Is that something we should expect in the near term or is that a longer term as we, kind of, maybe, think later in '19, 2020, once a lot of this initial market formation dynamics play out? I'm just trying to, kind of, just set expectations as we go through these first few quarters of launch.

Brendan O'Grady ***Teva Pharmaceutical Industries Limited - EVP of North America Commercial***

No. I mean, I put that out there as a -- obviously, as a -- not necessarily a benchmark but as a placeholder. We'll see if it's more or less than that. But I don't expect -- what I expect will happen is that as the market evolves here and we get to 2019 is that we'll settle out at a certain gross to net and it will probably stay there relatively stable, I think, as we go to 2019 and 2020. So again, it's still very early, it's still very fluid, and we'll see where we eventually end up.

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Operator

Your next question comes from the line of Esther Rajavelu from Oppenheimer.

Esther P. Rajavelu ***Oppenheimer & Co. Inc., Research Division - Executive Director & Senior Analyst***

I have a couple on AJOVY as well. Can you share any feedback you've received from prescribers on how they are choosing between the quarterly and monthly options? And then if you can provide an update on the autoinjector plans, that would be helpful as well.

Brendan O'Grady ***Teva Pharmaceutical Industries Limited - EVP of North America Commercial***

Yes, sure. So as I mentioned about 20% of patients are taking advantage of the quarterly dosing, which, quite honestly, is a little bit higher than what we thought would happen at the beginning. There is not -- it's early still, and we're still in the fourth week, fifth week of launch. So it's still early days. And I think it's largely being driven by patient preferences. If you can have the convenience, if you think about this patient population and it's overwhelmingly young females that are very busy and have very hectic lives. If they can take a product quarterly and then not have to worry about it for another 90 days, if they're traveling for work or doing other things, I think it drastically simplifies things and makes it very, very easy for patients to control their migraines as much as possible. So I think that's a lot of what's driving it. I have been out in a couple of the large national headache centers and that seems to be the general feedback, but it's anecdotal and it's early. So we'll have to wait and see how it continues to form and if that quarterly dosing continues to drive above 20% or stays right there. One would that if it's 20% at this stage, that would compound a little bit and we would see even higher usage of the quarterly dosing as we move forward. And I'm sorry, you had a second question.

Kåre Schultz ***Teva Pharmaceutical Industries Limited - President, CEO & Director***

Yes. I can fill in there, it's -- the question on the autoinjector plans. We are working on a plan to also offer an autoinjector, but I would like to stress -- actually based on my long experience with injectable therapy in the diabetes base that it's not like an autoinjector's a solution to all problems for all patients. When you use an autoinjector, there's always the risk of, what we call, a wet shot, which is that you somehow handle the autoinjector incorrectly, get the wrong angle, you get a wet shot, it doesn't matter so much if it's a diabetes pen where you can just dial a new dose and then inject the insulin you need. But if it's a once-a-month therapy and you get a wet shot, you need a new pen to do a new injection, of course. Otherwise, you don't get your pharmaceutical. There's also another issue, which is with autoinjectors you always have the issue of, what I call, interrupted shots. That happens because when you push the autoinjector, some people get incorrectly confused and pull it out and then you have all your drug spilling on the floor. Again, if it's an insulin injection, you can just dial a new injection and take it, but if it's a monthly therapy, that's a problem. So for patients who are not really completely confident about injections, it doesn't really solve the issue to use an autoinjector. So most likely, going forward, we'll both be offering an autoinjector for those people who can handle that, but we will also offer the prefilled syringe, which is a very intuitive and easy way to get your injection and where you have much less, you could say, wasted injections. So that's just to give you a feel for that.

Brendan O'Grady ***Teva Pharmaceutical Industries Limited - EVP of North America Commercial***

Yes. And just to add on to that, like I said I've been out in a couple of headache centers and the prefilled syringe does not seem to be an obstacle or a barrier for patients. As Kåre said, it's a very easy, simple way to administer a once-a-month injection or a quarterly dosing regimen. So it's not been a limiter at all.

Esther P. Rajavelu ***Oppenheimer & Co. Inc., Research Division - Executive Director & Senior Analyst***

Great. And then quickly on the guidance. So the revenue guidance is largely the same and EPS guidance is higher. So can you please help us understand the breakdown between the impact from lower taxes versus operating expenses?

Michael McClellan ***Teva Pharmaceutical Industries Limited - Executive VP & CFO***

Yes. Thanks, Esther. So the reason we haven't taken the revenue guidance up is the currency headwinds we've been talking about. Now, we do have some natural hedges. So the slightly lower operating expenses, slightly better gross margin and the lower tax rate are really what's driving the increase in the EPS margin.

Operator

Your next question comes from the line of David Amsellem from Piper Jaffray.

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David A. Amsellem ***Piper Jaffray Companies, Research Division - MD and Senior Research Analyst***

Just a couple of quick ones. Just going back to AJOVY, I just wanted to just probe further on your color on gross to net, this 25%. I mean, isn't that a little bit generous for heavily contracted product and product class? And I'm just trying to get a sense of why you feel that it will be at that sort of 25% level? And then just switching gears to AUSTEDO. You just talked about the mix between chorea and tardive. And, sort of, where much of the growth is -- has been coming from off late? And maybe an update also on when we'll see data in Tourette.

Brendan O'Grady ***Teva Pharmaceutical Industries Limited - EVP of North America Commercial***

Yes. So when you say 25% and you say generous, are you meaning that that's a little too high? Or you don't think it's high enough?

David A. Amsellem ***Piper Jaffray Companies, Research Division - MD and Senior Research Analyst***

I don't think it's high enough. In other words, you provided numbers in that.

Brendan O'Grady ***Teva Pharmaceutical Industries Limited - EVP of North America Commercial***

Yes. So it'll be, like I said, it's early days and it will be interesting to see how this market forms. Having 3 come to market with relatively similar perceived efficacy, I think, is a dynamic that we'll wait and see how it plays out. Is it going to be 25% or will be 30%, where it will be? I think it will vary by payer and I think it will vary by whether a payer decides to put all 3 on the formulary and have relatively open access or if they want to limit it to 2 of 3. And there maybe even some that go exclusive with 1 of 3. So we'll wait and see how it goes. Like I said, 25%, I think, is a good general point to use. But as I said, all the conversations are fluid and ongoing. So where it lands, I'm not really sure. As far as AUSTEDO and HD versus TD, it's about a 3 to 1 as far as TD. So I think most of the growth is coming from TD, although we are still getting HD patients. And there are still many HD patients out there that are either covered on another product or aren't covered at all. So I think that there's an opportunity in HD, but a lot of the growth is certainly coming from the TD segment. As far as the Tourette syndrome data, I believe that, that is another 12 to 24 months out.

Operator

Your next question comes from the line of Amy Fadia from Leerink.

Ami Fadia ***Leerink Partners LLC, Research Division - Director of Biopharma & Generics and Senior Analyst***

A couple of follow ups on the AJOVY discussion. Firstly on to gross to net, we've heard that the gross-to-net in some of the signed contracts have been more closer to the 40%, 50%. So I'm just curious what drove the 25% number that you talked about? Secondly with regards to the prescriptions, are all prescriptions quarterly prescriptions even though 20% of the patients are really availing of quarterly dosing? And then the next question is on just the generics business. You commented that you're starting to see the generics business stabilize. Are we at the point where we can expect 2019 generics to probably be flat versus '18?

Kåre Schultz ***Teva Pharmaceutical Industries Limited - President, CEO & Director***

Okay. Let me just start with the last one and then, I'm sure, that you'll get some comments from Brendan on AJOVY again. So it's too early to say exactly where the generics will be for 2019. I'm assuming you're asking about North American generics. It's not too early to say, yes, so North American generics, just to repeat, we went into this year with the assumption that we would have a gross business of $4 billion and then we went in with an aggressive tail carting of nonprofitable products. And we're seeing now, we're probably going to come out close to something like $3.9b. And that's basically because we're carting out some $100 million plus of revenue this year from nonprofitable products. And all that is, of course, part of the dynamics that is slowly improving our margin on the generics business. We will be continuing driving in that direction. We have done the majority of the tail cuts on the nonprofitable, but of course, we'll do some more of it next year. So where it comes out exactly remains to be seen. But of course, in February, when we give the full year guidance for '19, we'll be specific about it. Then on AJOVY, just a comment to this thing about the 20% of scripts being for the quarterly dosing. Now, it's a tricky thing to calculate once we move into the coming months, because if 20% of scripts remain quarterly, then, of course, a person who gets quarterly dosing only gets the script every third month. So that actually means of the sold-out volume, you have, sort of, 45% of volume being quarterly, which means of the doses taken of the patients taking the dose every day in a steady state. It's more than 40% of patients who will be taking what you could call a quarterly dosing only. So that's very exciting for us to see how it develops. We don't know, nobody knows. But at least, there's a sign here that it's more popular than we assumed in the beginning. And again, drawing from my experience from other, you could say, injectable therapies, both in diabetes and in antipsychotics, there's a sizable element who want

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less injections. The whole GLP-1 market has been moving towards less injections, antipsychotics, there's a big segment that's increasing with less injections once a month, once a quarter in antipsychotics. So I think there's really a need among patients for this kind of simplified therapy. And then maybe the last detail, which I think is important everybody realizes, what my colleague Brendan said, was north of 25%. So in the terminology, where you can always discuss what is favorable, what is not. Of course, for us, lower rebates are favorable. I don't know how people asking the question see it. But we see it as the lower the better. But north of 25% means on a negative side, so 25-plus something. Where it's going to end, it's too early to say. We're still in negotiations. There's no way we're going to get more specific. It will not be good for competition. It will not be good for our negotiation position. So I think, we have to close the questions about it right here. Thanks.

Operator

Your next question comes from the line of David Maris from Wells Fargo.

David William Maris ***Wells Fargo Securities, LLC, Research Division - Senior Analyst***

Just on European generics, it seems like there was a swing from growth in the second quarter to a small decline and sequentially, historically, there's not been a sequential decline. You mentioned in the press release that you saw price reductions. Is that just boilerplate language? Or is there, even if it's just a smaller change, a small change in the pricing environment that impacted that?

Michael McClellan ***Teva Pharmaceutical Industries Limited - Executive VP & CFO***

Yes, I can take that one. So if you look at Europe, Europe, when you look from Q2 to Q3, there's a couple of things that are impacting that. There's a little bit of a seasonality in the business. You will see that if you go back and look at Q2 versus Q3 of 2017. And the currency impact is starting really to take hold. The pricing impact we talked about was on COPAXONE. COPAXONE in Europe, actually doesn't have a substitutability, but in many of the countries, there is a reference pricing mechanism when a follow-on enters the market and there's some on pricing impacts. If you look 2017 to 2018, the vast majority of that decrease is actually the businesses that came out, the Women's Health business as well as the Hungarian Distribution business. So as Kåre mentioned earlier, the European business is fairly stable, but there is, kind of, a pattern amongst the quarters that you do see play out Q2 to Q3. And that's exacerbated unfortunately by the weakening euro and other currencies in the euro basket.

Kåre Schultz ***Teva Pharmaceutical Industries Limited - President, CEO & Director***

So another way to put it. Like-for-like in local currency, we have a growing generics business in Europe.

Kevin C. Mannix ***Teva Pharmaceutical Industries Limited - Head of Global IR & VP***

David, do you have any other question?

David William Maris ***Wells Fargo Securities, LLC, Research Division - Senior Analyst***

No that's it. I just don't see the seasonality that you mentioned in the generic products, but I'll go back and look again.

Operator

Your next question comes from the line of Liav Abraham from Citi.

Liav Abraham ***Citigroup Inc, Research Division - Director***

Final question on AJOVY for me. Any change in your thoughts on the peak revenue potential for the drug following the first few weeks of launch? And given the competitive dynamics, do you still view this as being a potential blockbuster for the company? And then secondly, perhaps, you can talk a little bit more about the pricing dynamics for COPAXONE. I think in the prepared remarks, you talked about positive gross-to-net dynamics in the quarter. I don't know if you can elaborate on that. And have you seen any impact from Mylan's price cut last quarter? And in terms of updated guidance for COPAXONE, are you still anticipating -- I think, you mentioned last quarter $1.5 billion is the number for COPAXONE. This year was $900 million in the U.S.

Kåre Schultz ***Teva Pharmaceutical Industries Limited - President, CEO & Director***

Yes. So let's talk about AJOVY first. And as you know, I never give any specific peak sales for any product, but I'd like to discuss the trend. And I know all of you listening in are very good with numbers. So if you look at the chart we've provided that has a volume trend of USA products going out the door. And of course, you can look at that and then you can do your math. You know what the list price is. You

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probably know what the list price is in Europe. You know the size of the market in Europe roughly. So if you do all those calculations and you just assume that there's going to be 3 or 4 players, so they will get a further of a quarter or whatever. Then you'll get to some numbers and that will tell you roughly where we're going. And then, of course, it's no secret that this class is predicted to be a multibillion-dollar class. And that means also, if you're competitive and if you get your fair share of the market, you will have a blockbuster on your hands. But we're not going to get specific in any way about when and where and how much. But we think it's a really great product and it has great potential, both in U.S. but also in Europe and in the rest of the world. So that was one of the questions. Then there's a question on COPAXONE and maybe you can comment on how we see the price development, Brendan?

Brendan O'Grady ***Teva Pharmaceutical Industries Limited - EVP of North America Commercial***

Yes. Sure, I'd be happy to comment on COPAXONE and the price development. So when Mylan dropped the WAC price of their generic, I think, it was June, late June that, that happened. It certainly puts some additional pricing pressure on the category and you saw our market share erode from the 84%, 85% of the 40 milligrams market at the close Q3 at 77%, 78%. So there's about a 7% market share decline. And as I said, there was some pricing -- some additional pricing pressure on our 40 milligram COPAXONE, but it was less than we had forecasted in Q3. Hence, the positive gross-to-net adjustment, which was partially responsible for driving that Q3 number that you saw. As far as the updated guidance that was one other piece for COPAXONE. In the U.S., we see COPAXONE probably ending in the $1.6 billion range for this year.

Kåre Schultz ***Teva Pharmaceutical Industries Limited - President, CEO & Director***

So that's slightly higher than last time.

Operator

Your next question comes from the line of Umer Raffat from Evercore ISI.

Umer Raffat ***Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research***

Kåre, what generics -- North America generics floor do you think truly exists? Now, is it still $4 billion or is it closer to $3.7 billion, $3.8 billion? And I asked that because I've heard the word stabilize come up several times on this call, which also makes me ask when you guys reference price stabilization, what specifically are you seeing, which is suggesting that generic pricing is starting to stabilize?

Kåre Schultz ***Teva Pharmaceutical Industries Limited - President, CEO & Director***

Thank you for that question. So first of all, I think we need to get things into perspective. When I joined this company a year ago, I think the generic market in U.S. had been in free fall, basically getting halved in terms of dollar value roughly in a 3-year period. Now that's serious dynamics when things get halved in a 3-year period. What we're talking about when you talk of stabilization, well stabilization is that whatever parameter you're looking at gets to a certain level and then swings a bit up and down around that level. So theoretically, if something stabilizes at 100, it might swing between 95 and 105 up and down. But there's no clear trend, it's not clearly going up, it's not clearly going down, that means stabilized as opposed to a turnaround where it starts growing again or a continued decline, which keeps on declining. So that's how you should read my rhetoric that I think that we are seeing the beginning of stabilization and what I mean with that is that you will have some quarters might be up and down, but that there will be no clear trend that it's dropping like a stone, like it's been doing for last 3 years. And it's not that it's going to grow again and get back to where it was 3 years ago either. That's really what I mean with it. Is that going to be at whatever number X, I don't know. It could be one number, another number. If it's within 5% we're talking about, then that's kind of ramping and nobody can analyze whether it's going to be one or the other. But there is a big difference if you talk about something that's at 100 today, whether it's going to be 50 a year from now, close to 100 a year from now or 150. And what I'm saying is if something is at 100 today in U.S. generics, it's going to be close to 100 probably a year from now. Does that explain it?

Umer Raffat ***Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Analyst of Equity Research***

Sure. And -- but also, Kåre, price stabilization? Because the word price stabilization was specifically mentioned on the slides too.

Kåre Schultz ***Teva Pharmaceutical Industries Limited - President, CEO & Director***

Yes. That means -- what price stabilization means is that if you have a downward pricing spiral, then you have ever-increasing discounts, which takes prices down to unsustainable level. That's what's been happening in U.S. generics for the last 3, 4 years. I believe we stopped

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that by our actions starting last year in December, and then what we've been doing all year until now, which is basically talking to all our customers, explaining, this product we can supply at this price and is sustainable. If you don't want to pay that, go to some Indian or Chinese manufacturer. Buy there, if you want to do that, but you can't get it from us. Now that has the effect that you end up with a portfolio that's priced at, what I will call, fair commercial value, which is profitable for us, beneficial for our customers. Once you get to that point, you don't have this pricing spiral anymore. That does not change the overall dynamic of generic pricing that at the first launch it gets a higher price than the second launch or the third launch, and there's, kind of, like an asymptotical approach towards the stable price at the end of the day for the long list of products or whatever you want to call them. So the basic dynamic will, of course, still be there, but it's just not accelerating. Again, the dynamics are stabilizing, which means that totality of the market is stabilizing.

Michael McClellan ***Teva Pharmaceutical Industries Limited - Executive VP & CFO***

Yes. And I would point out that the slides actually say stable revenue, they don't say stable pricing. So we didn't mention that.

Operator

And your final question today comes from the line of Ronny Gal from Bernstein.

Aaron Gal ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst***

Two questions. The first one is around generic -- the generic margin in North America. So I appreciate the stabilization. I have done a little math, where I basically took your reported revenue for the branded product and assume it had 60% operating margin. If you do that, you end up with the generic North American operating margin being are around 15%. You add to that a little bit of global G&A and a fair CapEx, which is typically for generic companies in the 10% to 15%, and you end up with a business where you sum between the cost of capital and no profit. So I guess the question is twofold. First of all, am I misunderstanding the division of the operating margin here between the branded and generic? I just used your 2017 when you used to report those 2 segments. And second, at that level, you obviously have to push that generic operating margin up a few percentage point. Where can we get there? And where do you think it will stabilize? The second question is around the Rituxan settlement. I guess the question is you have the freedom to operate in all the indications? Or you're limited to the ones in your label and you can still get sued if the product gets prescribed outside of the labeled indication?

Kåre Schultz ***Teva Pharmaceutical Industries Limited - President, CEO & Director***

Thank you very much, Ronny, for those 2 interesting questions. The first one, I won't get into the details about the different numbers and so on. But I will confirm that, of course, we are working very hard every day to do, what I would call, rational portfolio optimization of our U.S. generic business. And as a consequence of that, you are correct, that then we are, of course, working to improve the margin of our U.S. generic business. Obviously, when I joined the company, I was not satisfied with the operating margin we saw from U.S. generics. I don't think, your numbers are actually totally correct, but the idea is correct that we need to push up the margin, and that's what we've been doing this year. That's what we will continue to do. It's a complicated long-term effort, because it involves both the manufacturing operation, the research that supports the regulatory -- that supports the launches of the generics, but we're working hard in order to improve the margin and will continue to do so over the coming many, many years. With regards to Rituxan, I'm sorry, but I have to give you a very short answer. I would love to give you the details, but the settlement is confidential, so I can't really give you any comments to it. Sorry about that.

Kevin C. Mannix ***Teva Pharmaceutical Industries Limited - Head of Global IR & VP***

Okay. Thank you everybody for joining us today for the call. We look forward to talking to you today, tomorrow and next week. And thanks again, have a good day.

Operator

Thank you. Ladies and gentlemen, for those wishing to review this conference, the replay facility can be accessed by dialing within the U.K. on 0844-574-8951, or alternatively, on country code +44-3-333-009-785. The reservation number is 7193665. That does conclude your conference for today. Thank you all for participating. And you may now disconnect.

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