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Teva Pharmaceutical Industries Ltd.

(TEVA)

JP Morgan Healthcare Conference

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Chris Schott
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MANAGEMENT DISCUSSION SECTION

Chris Schott
Analyst, JPMorgan Securities LLC

Good morning, everybody. I'm Chris Schott at JPMorgan, and very pleased to be hosting a fireside chat with Teva this morning. We have the Teva management team with us and we're going to start with some opening comments from Teva's CEO, Kåre Schultz, and we'll go into the Q&A.

So, first of all, Kåre and Eli, first, thanks for joining us and Happy New Year to everybody.

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

Happy New Year.

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QUESTION AND ANSWER SECTION

Chris Schott
Analyst, JPMorgan Securities LLC

Q

I just was thinking back to – I think, Kåre, it's your third year presenting at the JPMorgan Conference as CEO of Teva. [ph] Just thinking back and (00:00:33) you've made a lot of progress repositioning the company during that time. So, as we turn to 2021, hopefully, a more normalized year for everybody, we'd love to just hear your thoughts in terms of how you see Teva positioned today and your key priorities for the organization as we think about the company going forward.

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Well, thanks a lot, Chris, and Happy New Year to you too. So, I think Teva is positioned very strongly now. We have been through, and as you said, the restructuring over the last three years and we now have a basic footprint, which is aligned to our business. And we are sort of turning into a more growth-oriented strategy now, where we have, of course, a strong focus on the key top-line growth drivers.

And you can say, we really have sort of three major elements there. The biggest one is our specialty products, where, as you know, we have AUSTEDO. That's doing very, very well in the US and that's also been launched in China. And we see a very, very big volume possibility for AUSTEDO in tardive dyskinesia, where we are still only scratching the surface of the patient population in the US and continued strong growth of that product.

We see AJOVY catching on very nicely in Europe and starting to regain share in the United States based on the launch of the auto-injector. And we see exciting new things coming in the specialty area. We are waiting to see how it will work out with [ph] Sinemet (00:02:03) and the filing of that sometime this year. We are waiting to see the filing of risperidone LAI that we just got results on, a really good improvement in therapy for schizophrenia now that this product can be dosed subcutaneously. We just got these Phase 3 results, which are very, very strong.

So we see a lot of good things happening in that space. And of course, that will be driving sales of new products already now. Sales of these products combined are more than $1 billion, and it will continue to grow in the coming years. So, that's very positive.

Then we have a new segment, you could say, which is getting bigger as we speak, and that's the biosimilars segment. And you could say we are now seeing strong track record already for year with TRUXIMA, which is validating the idea that if you have a strong business-to-business presence in the marketplace, then you are well positioned to market biosimilars and gain meaningful market shares with reasonable good margins. So, that's very exciting for us going forward, also based on the big portfolio. We have more than 10 biosimilars now, both in-house projects and partner projects with Celltrion and Alvotech.

So, the specialty is one driver [ph] similars is (00:03:19) second driver. And then the third driver is really the broad-based generics, OTC, generic API [ph] Medis topic (00:03:26). That whole big segment where we see single-digit growth in Europe and the rest of the world, and we see a stable situation in the US, potentially low-single digit growth and improved profitability because we continue to modernize, to make more efficient our manufacturing, to consolidate our manufacturing.

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So we are, I would say, in a growth and optimization phase right now, which is a nice change from the sort of quite radical restructuring we had to do in order to stabilize our cash flow and our earnings. And I'm happy to say that the debt has come down now, as you know, $10 billion, basically from around $34 billion to around $24 billion, just below $24 billion, and we'll continue to take it down. And there's no change in our capital allocation strategy. We pay down debt until we are below three times net debt to EBITDA. So, a firm [ph] on gene (00:04:25) strategy, but as a consequence of the progression, more focused on growth now. So, that's very positive.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Great. Great. Can you just elaborate maybe on that, first, on the top-line growth? Lot of different areas to dig into there, but when I think about the business, seems like you're still absorbing some lingering headwinds. You've got your US generic business. It's still a reasonable chunk of revenue and pretty anemic growth there. So, just help me understand – like when I look at really nice opportunities, like AUSTEDO and AJOVY balanced against some of those other franchises, what's a reasonable growth kind of target to think about for Teva as a whole?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Yeah. If I take the broader answer first and I'll give you a couple details, then I would say a reasonable growth to expect for the whole revenue is single-digit, low to mid-single digit. That's what's reasonable. And then you've got to combine that with a margin expansion, because as you know, we have a end of 2023 target of 28% in operating margin, and we are firmly on track for that. So, that's really – those two levers are what will drive the improvement in EPS going forward.

And if we then look at what is really changing since then we can drive revenue growth now after having dramatic decline in revenue over the last four years, it's really a couple of things. The two main things that have changed is that there's no longer a decline in US generics and – so, we're seeing a stable situation. We're having good launches. We're having reasonably good pricing and that collapse we saw from, let's say, 2015 to 2019 has completely stopped and we have a stable situation. So that drag is gone.

And the other drag, which is getting much, much less is the big drag we had from COPAXONE. That drag has also come down to a low number already in 2020. You can see it's a low number. It will of course continue, but at a very low rate. So the fact that we had two major drags that have stopped and then have the growth come from, like you said, AJOVY, AUSTEDO, and hopefully fasinumab and biosimilars, that means that we get back into a situation with stable growth, not at very high double-digit numbers, but it's single-digit numbers.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Great. And maybe just jumping into those branded and specialty products in a little more detail, first on AJOVY, can you talk about the launch of the auto-injector and where you stand today in terms of your market share and relative to some of the targets that you were hoping to achieve there?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Yeah. So, as you're probably, I think, very much aware, we had a good launch based on the good clinical profile. Then we fell back a bit because it's a three-player market and we did not have an auto-injector. And that really hurt us in the marketplace. And our – some of the [ph] NBRx (00:07:26) share fell from like 30% down to – I think it bottomed out at around 11%. Then we finally launched the auto-injector last year in April-May. And with that, we

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saw then a returning to the marketplace in a good way, and the capture rate then went back up. The NBRx went back up to something like 25% and it's still climbing.

So, I think we're back in the race now. We're capturing again nicely. And I always had the ambition that we should be at, at least 25% share long-term, simply based on the fact that it's a three-player market, but we have unsurpassed efficacy and unsurpassed safety. What do I mean with that? What I mean is that we have one competitor that has a safety issue with constipation. That's not very popular with patients. You don't have that.

And then we have a longer duration of action than any of the two competitors. And the longer duration of action is the reason why we can dose once a month or once every three months. And we had phenomenal data come out showing that when you dose once every three months, you maintain completely the same efficacy. There's no drop or anything. That's all due to the long duration of action.

So, I think we have a clinical profile, which is very competitive. Our auto-injector is also very competitive. So, we're seeing good return to increase market share in the US, and we're seeing very strong performance in Europe. And there's a twist to AJOVY, which I think most people are probably not aware that is that the pricing is actually the same, if not even better, in Europe than the US because in the US, we have the unfortunate situation that the [ph] three (00:09:07) player situation, and one of the players being quite aggressive in the contracting that led to a higher rebate level than normal, which took down the net pricing.

Now, it doesn't work that way in Europe, of course. In Europe, you negotiate with each government to get reimbursement and once you have that, that's a pretty static situation. So, we've actually ended up with pricing in Europe, which is competitive to the US pricing for once. So that means that we are foreseeing a good situation for AJOVY in Europe and we see very nice market shares being at the 25%-plus level in several countries. So, our strong overall commercial footprint in Europe will most likely lead to a very strong position by AJOVY and long-term generate substantial sales in Europe for AJOVY. So, we're very happy about the development right now.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Yeah. And can you talk about the broader CGRP market? This seems like one of the categories that did have some impact from COVID and the dynamics we saw in 2020. Just what's the state of the overall volume of the category and how do you see that as we go through 2021 and hopefully the world normalizes a bit as we go through this year?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Yeah. Thanks for that question. I think it's a good time to address a little bit about the way we see the COVID dynamics, COVID-19 related dynamics in the marketplace. One dynamic, which is pretty clear, is that new innovative products have had a lower volume growth in the total market, not specifically Teva at all, but all new therapies have been growing slower, simply due to the fact that less people have been going to the doctor due to lockdowns and so on everywhere. And that basically means that the volume growth we had anticipated for the CGRP market in 2020 has been slightly less and that goes for basically all categories of new innovative drugs. So that's one dynamic.

I think there's no change in the general population need for new medications or in the preference or anything like that. And the moment things normalize, which they hopefully will some 6 to 12 months from now, then we'll see a normalization of the volumes, of course, because it's not that less people have migraine or anything like that. It's

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not that less people have cancer and so on, right. But in all those areas, you see lower volumes for the whole market, both in US and Europe.

Now, that we expect to normalize not in the first half of this year, but probably in the second half of this year. And then of course, we also had the COVID-19 effects on OTC products and generics. And the other effect was a little different. In the beginning, we had – first quarter, as you know, we had some patient level hoarding of medicines. And then we had, in the second quarter, some level of destocking and reduced number of people going to the doctors, which reduced volume in generics as well. Then third quarter, normalized.

And if you look at the broad like IQVIA data on Europe and US, you'll see that the fourth quarter is probably down 3% to 5% in total volume for all pharmaceuticals in total. Now, here, I would expect that in Europe and US, you will see the markets still being slightly down the first half of this year and then it'll catch up in the second half once we get through with the vaccination programs and people start to go to the doctor at the same level as they did before.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Yeah. Absolutely. And then maybe one final one on AJOVY. You mentioned the US pricing dynamic is a bit more competitive than any of us expected. What's your outlook going forward? Do you think we've now hit a point where this is a relatively stable price and access dynamic, or should we still think about there being some price competition as the market continues to evolve?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

It seems that it has very much stabilized. And I won't speculate on exactly how this has happened, but you could think that – the fact that there was very heavy contracting and deep discounts in the beginning in order to get better positioning in market share. But the three-player dynamic has remained intact and we are gaining share again. So, it's very much a three-way split of the market.

It might have [ph] cooled (00:13:34) people on believing that they can gain even further share by contracting even more aggressively. And that means the financial calculation will naturally be that once you have a relatively stable share, if you contract more aggressively, you lose a lot of value on your existing market share. So, it doesn't really make sense to be more aggressive.

So from my perspective, it seems to have stabilized very much. And I don't expect any major developments on the contracting and access side on the US market. In Europe, it's government by government and we have launched by now in, I would say, 80% of European markets. And the last markets we expect to launch this year.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Great. Yeah, so it sounds like European dynamic is pretty, pretty healthy overall [indiscernible] (00:14:20) when I think about this project at peak, how much of this business is a US-centric business versus how much is international on that? I kind of think historically migraine being more US-centric, but [indiscernible] (00:14:30) this might be a little different dynamics with the CGRPs.

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

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Yeah. Actually, if you talk about patient volumes, the frequency of migraine and diagnosed migraine is similar in Europe and the US. But of course, if you go back and look at different therapies [ph] different – all (00:14:48) therapies for migraine, then pricing traditionally in the US has been significantly higher than Europe. So, if you look at value numbers going back and look at the migraine market, you will see US as the dominant piece. But if you look into volume, patient volumes, it's quite similar.

So that means now that we have a new situation where we have an identical marketplace where the pricing is similar in Europe and US. Then I would say the potential of the two markets is similar. And then, of course, goes all three competitors because the price levels are also in Europe similar between the three competitors. So it's a new dynamic where Europe will take a bigger share of this market going forward.

Of course, everybody launched later in Europe, about a year or two years later. So [ph] we'll take it – (00:15:38) and Europe traditionally has slow launches because you need to go through this whole reimbursement negotiation with each government. But since we're getting close now to everybody having reimbursement in most markets, we're seeing the volumes starting to pick up. And with a, I would say, a two-year delay, you should probably expect the European market to grow to the same size as the US market.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Okay. Interesting. Switching over to AUSTEDO [ph] product has obviously been (00:16:07) growing very nicely here. Can you just elaborate on the traction you're seeing with the two core indications and how you think about the growth of the franchise going forward?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Yeah. First of all, of course, AUSTEDO has a really nice position in chorea with Huntington's disease, and it's doing very well there. That patient population is of a limited size. It's a relatively rare disease, fortunately, you could say. And so, we have a good position there, a stable market share, a high market share. Where the growth is really coming from is tardive dyskinesia. Tardive dyskinesia was always, you could say, basically untreated. There was no drug indicated for tardive dyskinesia until AUSTEDO and the one competing product came along.

And tardive dyskinesia is a quite widespread condition, estimated at around 500,000 patients in the US. And so far, it's a fraction of those patients that have been treated. And it's, of course, a disease where when it's untreated, it's socially debilitating. It can prevent you from working, prevent you from having normal social interactions and so on. So, there's a huge benefit from the treatment. And then we see a steady volume growth in that segment. We expect that to continue for several years or many years into the future. So, very well positioned, helps the patients a lot. And you could see, the limited price competition also means that financial it's very attractive for us.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Yeah. Absolutely. Is there an opportunity to put even more resources behind the drug given that that seems like a very significant opportunity with tardive dyskinesia? So, how do you think about [indiscernible] (00:17:55)?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

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You could say, of course, it's always – if your patient population expands, then typically you also get a modest expansion in the doctors that are prescribing at a level where it makes sense to be promoting to them directly. And we have been expanding our commercial footprint targeting AUSTEDO during 2020. And I won't rule out that we'll see marginal increases in our promotional activity on AUSTEDO also in this year.

Chris Schott
Analyst, JPMorgan Securities LLC
Q

Okay. Other growth driver I'm thinking about here, [ph] generic (00:18:31) biosimilars, and you've had a really nice launch with TRUXIMA so far. Just talk a little bit of the dynamics you're seeing with that product. And then [ph] from there (00:18:40) kind of broader comments on the biosimilar opportunity, I guess.

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

Yeah. Chris, I'm sure you can remember that before we launched, I told everybody that I was hoping that my theory on our commercial position would hold up, because my theory is that if you know the marketplace and you have a lot of business-to-business contacts and activity and volume and, of course, we have more than anybody else because we are the biggest volume supplier in the US pharmaceuticals, then you can leverage that with biosimilars because you simply have all the contacts, you know how the contracting work and so on.

Now that we had to prove with TRUXIMA and I think a year – a bit more than a year ago, I said that we can prove that by getting a double-digit market share and now the proof is in the pudding. We have to show it. We're happy to report that we now are around 20% volume share and very happy about that and hope that we can grow that further. And of course, it is with biosimilars, like with any, you could say, generic [ph] biosimilar (00:19:42) products. It helps to be first and it helps to have a good commercial footprint.

And of course, once you get more competition, there will be some price pressures. But there's a dynamic with biosimilars, which is that each player that comes into the market has invested more. It costs more to do a biosimilar than do a generic. That means you have more of an investment, you have to [ph] recoup (00:20:08), and that means that you can't just go super low on the pricing because then you will make no money. And the manufacturing is more complex, costs more.

So, the pricing is affected by those dynamics and also by the fact that you do have competitors in the biosimilar space, but you have less competitors than you do in typical, classical generics. So, I'm very happy about the situation we see in the biosimilar space, and we are making a big push here because we got – as I told you before, we had more than 10 projects. We just in-licensed five from Alvotech. We have more than five internal projects. And we don't comment on the details for competitive reasons, but I would say we cover the big majority of what's going off patent over the next 10 years in terms of biopharmaceuticals.

Chris Schott
Analyst, JPMorgan Securities LLC
Q

And should we think about there being more near-term launches or are these more kind of mid-decade, I guess, in terms of the time horizon on these?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

There are kind of spread out over the next many years. So we have some that are for patent reasons and so on. They are years into the future and we have some that are quite close. So, it's a mix.

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Chris Schott
Analyst, JPMorgan Securities LLC

Q

Okay. And in terms of the therapeutic areas, are you seeing more kind of oncology centric or do you see that the biosimilar kind of trends we're seeing can – I kind of think about a hospital prescribed product maybe very different than a [ph] teen app (00:21:36) or something like that? So how are you thinking about market selection as you look at that portfolio?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Yeah, we do believe that, like you said, the hospital products are probably the ones where it is easiest to be very competitive and keep good margin because the business-to-business relations there helps. So the majority of the products we have are either for clinics, hospitals, and not for retail pharmacy distribution.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Okay [indiscernible] (00:22:06) do you feel like you can launch a lot of these through existing infrastructure or should we think about there needing to be more infrastructure going in place as you go from one product portfolio of 8 or 10 products over time?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

So we think that it's going to work pretty much like generic, you could say that we have an infrastructure already that covers these areas. We cover all hospitals, clinics, basically due to our big and broad portfolio. So we don't see any significant or we don't see any increase in infrastructure cost due to more biosimilars coming into our portfolio. Just like we don't see when we add specialty generics or generics because we are covering all customers basically already.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Sure. Sure. And again, you think of these as products that you have to launch. Then maybe some competition coming in, but there's a pretty significant tail associated with many of these assets. Is that reasonable to think about it?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Exactly, yeah. Yeah. And of course, there's a dimension here, which is very tricky, which is why we're not commenting on it and that's the legal dimension. So there's a legal dimension, which links to the patent situation for each product, which is different from each product and all those aspects. And they play a role in the, you could say, your launch sequence and how early can you launch and are you making a settlement, are you not making a settlement, are you launching at risk, are you not launching at risk.

All those elements of course, are very important in order to optimize the value of the asset you have, the value of the biosimilar. And we believe that we have strong capabilities in that whole, I could say, legal space, because some of those dynamics are, of course, similar to the dynamics you see on generics.

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Chris Schott
Analyst, JPMorgan Securities LLC

Q

Absolutely. Maybe final topic on the products. I think you mentioned a couple launch opportunities with nerve growth factor, et cetera. Maybe just help me first on nerve growth factor. Just how do you think about a product like this in terms of its positioning? On one hand we've got obviously an opioid crisis, we need better pain medications. On the other hand, the category, I think, has some other safety concerns, kind of lingering around it. So just help me – your level of excitement around that opportunity and how do you think about that playing out in the longer term type of story.

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Yeah. So, first of all, I think there's a significant need in the marketplace for safe pain medication. And as such, there's a big need for these kinds of products. And there's also a need for products that are non-addictive in the marketplace. So no doubt about that there's a big need.

You're absolutely right that this product – the two, of course, our product and the other one is [ph] a surprisingly new (00:24:49) product and they have been developed for, I don't know, 20 years or something like that, a long time. And the primary reason why it's taking so long is, of course, the safety concerns that's been in connection with the effect they could have on joints. And in some cases with higher doses, we've seen negative effects on joints. And therefore, development programs and our development program together with Regeneron has been changed over time to use lower dosing, which has then shown to have less safety concerns, but there's still this question about this, the joint safety.

Now to me, the data looks like it should have a good risk benefit or cost benefit, whatever you want to call it for patients. And given the fact that there's a real need here, then I think it looks attractive. But of course, we still have to see the final long-term safety data. And it's also going to be interesting because [ph] Pfizer, really they're (00:25:52) ahead of us. So they will have their advisory committee if it goes ahead on time, you never know with COVID-19. But if it goes ahead of time, they're going to have this in the first half of this year and we'll see what comes out of that.

And personally, I think that there's a good chance that this product category could move ahead and get approved. And if that happens, then I think there will be a real market for it. But, of course, I mean you never know. It's up to clinical, very specific evaluation of the pros and cons of a product that is very efficacious in treating pain and that has a low level of risk to joints in a low fraction of patients.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Sure. Sure. Do you see that given that dynamic as more of a kind of niche category or do you think if these are approved, this actually could become a very significant category as a whole?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

So that again depends on the evaluation by FDA and EMA, how they're going to look at it. And you can, of course, imagine all kind of scenarios where it gets approved with a very relatively broad label, gets approved with a very narrow segmentation, or it doesn't get approved at all. I mean, it's really too early for me to say and I'm not pretending to be the clinical total expert on this. I can just see from the data that it's possible to see a positive risk benefit from the product.

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Chris Schott
Analyst, JPMorgan Securities LLC

Q

Okay, great. And then just a question on R&D budget. I know this question was asked in the past, but – and I know you've talked about not the absolute numbers don't matter as much as more efficient spending, but as you're rebuilding the company, as you start to think about some of these growth opportunities, whether it's biosimilars, whether these more novel products coming forward with, do you feel that the R&D budget is adequate, I guess, for the opportunities or should we think about it as maybe as gross margins improve, as top line starts growing, that that frees up resources to start either in-license or maybe accelerating some of the R&D spend for the organization?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

So, we are spending roughly $1 billion a year on R&D, and I believe that's an appropriate amount for the size of business we have. And we've done a lot of modeling analysis and it's an appropriate amount to keep the business growing going forward. Of course, if we see strong growth in our top line and in our operating margin freeing up more cash generation, then we might spend a little more. But you should not expect us to increase [ph] the percentage of (00:28:19) the R&D ratio, the R&D percentage.

So if we grow the top line 10%, we might spend 5%, 10% more on R&D, but there's no sort of plans to accelerate the R&D spend and there's no plans to stop spending any significant amounts on acquiring assets right now. We have our 2023 ambition, which is to get net debt to EBITDA below [ph] three times (00:28:43) and that's really the key financial driver. And the deals we've done have been quite modest. The Alvotech deal we've done is a quite modest deal in terms of cash outlay and we don't have any plans to do any major acquisitions of neither assets nor companies in the coming years.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Okay. Excellent. On the 2023 kind of targets and maybe specifically the 28% operating margin target, can you just give us an update on some of the restructuring and efficiency programs that you're working on that that enable that expansion over the next few years?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Yeah. So we had a very comprehensive gross margin improvement program that we are running in our [ph] own (00:29:27) manufacturing organization. It's of course well-organized. It's got a lot of different tracks, sub projects and so on. And it includes all the traditional things. So it includes a further consolidation of our sites. You just saw we just sold a site in Serbia. We just sold a site in Russia. So we keep on consolidating, closing smaller sites, consolidating into bigger sites, and that will continue for the next couple of years. And that does drive improvements in gross margin.

We're also consolidating our procurement. We are streamlining our product portfolio so that streamline [ph] builder (00:30:07) materials so that the same API goes into all the different products in a category. So we're doing a lot of different things. It's all classical optimization and it's very detailed and we are very confident that we will be reaching our ambition of the 28% operating profit by end of 2023.

We're not seeing any major reductions in the commercial spend. So sales and promotion spend will remain at the same level in percent of sales. That's not where we're seeing the big benefits coming from. But we do see

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continued optimization on the profitability per product, so continued marginal pruning, active margin and price management combined with further consolidation and improvements in manufacturing. So we're very confident about the 28% and we will reach there.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

And I guess, [ph] question is (00:31:01), it seems like when I look at the expansion here, it's a lot of different initiatives. It's not just kind of big head count reduction or a handful of very large plants closing. So how should investors track how – the progress you're making against those initiatives? This is just going to be kind of quarter in, quarter out [ph] seeing (00:31:17) the margin expansion or are there other metrics we can think about that you could share with us to help us get a sense of how far along in the process you are as you go through this next few years?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Yeah, I think the – it's not really something that you can track in any other way than through the quarterly numbers, the yearly numbers, and then the fact that you sort of have to trust me when I explain this is how we do it. And I've done it many times before and it's always worked and it's not rocket science to optimize manufacturing.

So when we say that we will improve the operating margin by some 50 basis points to 100 basis points per year, then that's what we're going to do and you can track it, of course. You can have blips on a quarterly basis because you have a really good launch and then your revenue goes up and your margin goes up in that quarter and then it goes down the next quarter. But if you drag it like on an MAT basis, then of course you should expect that on a MAT basis. You can see that it's climbing all the time and that is tracking towards that 28% at the end of 2023.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

So it sounds like when you're describing that from a risk perspective, you don't see a lot of – this is kind of blocking and tackling. You've done this before. You know you got very clear objectives of going after. So from a risk perspective you don't see a lot of risk in terms of hitting that target. Is that fair to say?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

That's fair to say, yeah.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Yeah. Excellent. Just pivoting a little bit, liabilities on the balance sheet has been a big topic of the story. Maybe just talk about opioid litigation. It's been [ph] overhang in the story, seems like (00:32:48) in the past. But just any thoughts in terms of where we are in terms of resolving this issue if you think about where we are today versus a year ago. Just update a little bit. Are we making progress towards getting to goal line on [ph] putting this (00:33:05) behind the company?

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Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Yeah. So compared to a year ago, we have made progress of not nearly as much as I hoped for. So what we hoped for a year ago was that the trial in New York that was scheduled to be in the first quarter, that that would push people together to do the final settlement and then get things done. So we all know. What happened instead of that trial was that we got COVID-19. And every single trial scheduled got delayed and they're still being delayed.

So we have been spending the time working with the state AGs on, you could say, all the wording, making sure that there's a lot of legal stuff that you need in a settlement like this, all kind of conditions and details. And we've been working hard with our sort of partners from the AGs on this and we made a lot of progress on that. But the issue here is that we have five companies involved and we have 1,500 plaintiffs, of course, organized in some plaintiff groups, 50 states. And everybody has to come together to do something that makes sense for the US public. It makes sense to all the involved parties. And the framework really does make sense, I think, for everybody and does help people who have problems with substance abuse in United States.

Now, unfortunately, when you have hundreds of lawyers, we need to get together and eventually sign on the dotted line. If you don't have some kind of timing pressure, it really doesn't happen. I mean, you don't get to that. You don't get across the final line. Right now we, of course, have a trial sometime in the coming months, potentially in California. We have potentially one in West Virginia. We potentially have one in New York. But the problem is they keep on being postponed. And I still believe – like I said a year ago, actually, I do still believe we need to schedule trial date to really push everybody to get across the finishing line and sign.

I think we are relatively closer now than we were a year ago. But it's, of course, a big disappointment that we've had all these delays. But nobody can control the fact that we got COVID-19 and that has been slowing down the whole legal system for good reasons, which is very understandable. So my hope is, for us as a company, for the state AGs, for US society, that we can complete this settlement, then we can supply Surfaxin, which is a really good product for weaning people off opioids to all states in the US. And there will be a lot of cash coming in from Johnson & Johnson and the three distributors. And this money can be spent in a good way to reduce substance abuse in the US.

So that should be a win-win situation for everybody and hopefully it will be resolved sometime during the coming year. But again, it's very hard to predict, given the fact that it's hard to predict the COVID-19 situation and how that will evolve over the next 12 months.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Yeah, it sounds like think with this situation in general, it's not that we're seeing kind of like radically different requests coming in from some of the plaintiffs. This is really just kind of tied to COVID delay cases and it hasn't really forced people to the table to the extent you might have hoped starting in 2020?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

Yeah, that's absolutely correct. That's how it started.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

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Okay, excellent. Yeah.

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

So I very much hope that when we meet again Chris, a year from now, I hope we can discuss how [indiscernible] (00:36:33)

Chris Schott
Analyst, JPMorgan Securities LLC
Q

[indiscernible] (00:36:34) yeah, excellent. And then just on kind of a really [ph] hot (00:36:39) topic on debt pay down. That's been a major focus of yours. I think you've talked about the timelines that you're getting down to that three times leverage. I guess at what point does this strategy pivot from debt pay down to, I guess, going on offense a little bit more as you think about business development and maybe accelerating investment in the business a little bit? So just kind of as we go through the next few years, is there a need to kind of make that pivot as you delever or do you think you've got the assets within Teva as an organization that we – that's really not the way to be thinking about the company over time?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

So right now, I think I have the assets that are needed for Teva to grow nicely and to reduce the debt and get into a stronger position. Of course, once we get below three times, so net debt should be down below three times, the debt pay down accelerates at a certain point in time because the net financing cost, which is around $1 billion right now, of course, at a certain point time, that starts to go down as well.

Refinancing becomes cheaper because debt ratios become better. And then you really get down into a situation where debt goes down fast. I would think once you get close to net debt being two times EBITDA then you get flexibility to think about do you want to pay dividends, do you want to be more aggressive on your M&A, what do you want to do. But that's not for now. We need to hit the 2023 targets first and then once we've hit those, we'll be communicating a new strategy, long-term financial targets. But we won't do that until we've proven that we hit the first set of targets at the end of 2023.

Chris Schott
Analyst, JPMorgan Securities LLC
Q

Great. Maybe it's the last minute or two here. As you think about investors' perception of Teva's story, what do you think are the most underappreciated parts of what's been happening at the company and where do you think we should be spending more time digging into?

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.
A

I think maybe it's not that people do not understand. I think most people understand that the fundamentals have been dramatically improved, that we are making strong progress on earnings, on growth. We've stabilized. We're making progress on debt and so on. But everybody is kind of also seeing the risk factors being the opioids and the legal situations.

Chris Schott
Analyst, JPMorgan Securities LLC
Q

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Yeah.

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

A

So I would say, most investors I think get their basics right. So it is more a question of do you believe that the opioid situation will be resolved and that we will then see the true value of a very, very stable and steady business model, because it's ironic that I think generics and biosimilars is probably one of the most steady business models you can imagine provided that it's a disciplined management and board that wants the business because you make good margins, you have steady inflow of products every year. You can predict your next 10 years, how are you going to be doing.

So if you don't do anything, you could see to sort of upset the cart or whatever you call it. Then you actually have a very steady business that earns really good margins, really good cash flows. But I think people are still afraid about the legal situations, and therefore, they don't dare to pick on the long-term value, even though I'm of course totally convinced that once these legal situations are out of the way, then people will realize it's a really good long-term business we are having.

Chris Schott
Analyst, JPMorgan Securities LLC

Q

Yeah, makes a lot of sense.

Chris Schott
Analyst, JPMorgan Securities LLC

Well, appreciate all the insights today and the time and again thanks for joining us. We're about out of time, but thank you.

Kåre Schultz
President, Chief Executive Officer & Director, Teva Pharmaceutical Industries Ltd.

Thanks, Chris. Nice talking to you. Bye-bye.

Chris Schott
Analyst, JPMorgan Securities LLC

Nice talking to you. Have a good day.

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