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Teva Pharmaceutical Industries Ltd.

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MANAGEMENT DISCUSSION SECTION

Chris Schott
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Good morning, everybody. I'm Chris Schott from J.P. Morgan and it's my pleasure this morning to be introducing Teva. From Teva we have Kåre Schultz, the company's President and CEO. About a year-ago we heard from Kåre as he was taking over the company laying out some of his vision for where Teva could go, obviously made a lot of progress over the course of last year and looking forward to an update of what to look for next from the company. So with that I'll turn it over.

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

Thank you very much, Chris. It's a pleasure to be here again. Good morning, ladies and gentlemen. It is probably very much to the minute a year ago since I presented the restructuring plan and the outlook for Teva. And if I should give you the take-home message upfront, then of course, you can maybe skip the next 25 minutes then the take-home message is that everything is on plan. We are proceeding on the plan with the restructuring both on the costs side, on the revenue side, on the pipeline side. So that's the real brief introduction and you know what what's coming. You need to read this. It's a lot to read, but I'm sure you've seen it before so that you know that it's always difficult to predict the future.

Now I was saying that everything is on track and that's actually exactly how it is. One of the key elements in the restructuring is of course to reduce the overall cost of running the company. And I shared with you a year ago that we have a plan to reduce the total cost base of everything that you have in your cost by $3 billion in 2019; so, in this full financial year that we're in now and we are very well underway to do that. The only firm numbers we have shared with you is of course the third quarter numbers and I can't share more than that with you today of course for good reasons. But the third quarter numbers shows a gross reduction of $2 billion and then after some currency $1.8 billion, so very much on track to hit the $3 billion for the full year of 2019.

But at the same time as we are reducing cost, there's of course been a lot of skepticism about then what about the revenue, can we keep everything going. And I think we've proven that we can do that both on the products that we are in the launch phase of, but also in terms of getting new approvals, be it for new innovative drugs or new and biopharmaceuticals or new generics.

And one of the key elements has of course been the approval of AJOVY. We are very happy about this new innovative therapy that really helps potentially millions of people suffering from migraine worldwide. As you know, there has been three companies who has come out of the gate very close to each other, and all three companies

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have basically the same therapy which is extremely effective on chronic migraine. And we're seeing very strong volume uptake here in the U.S. of the total class and we see also very good uptake of AJOVY. We are sort of around, that's public information, you can buy it if you want it, and we are sort of around 30% of new-to-brand, so NBRx, and that's a combination of people going on the once monthly dosing and the quarterly dosing that we have in the marketplace.

AUSTEDO, as you know, for different kind of movement disorders, Huntington's disease and tardive dyskinesia, continues to do very strongly. I'm sure we'll hit the target for this year or for last year and we'll continue to see it growing strongly this year. There's an enormous unmet potential in tardive dyskinesia, and as you know, we also have it on the Phase 3 clinical development for Tourette's. So I'm very optimistic about the long-term future for AUSTEDO.

COPAXONE, that's of course the big challenge we've had, that it's gone off patent and we have generic competition in the U.S. and we have sort of biosimilar competition you could call it in Europe and we've been playing the game of trying to keep some of the volume and then give some more discounts. It's working well so far as I'm sure many of you know, we're holding onto more than 70% of the business in the U.S., actually well up into the 70s. So we're very happy about that. It doesn't stop the revenue from declining the way I also predicted a year ago because of course, as you give more discounts in order to keep the revenue, then your total sales will of course be declining. And COPAXONE will continue to decline next year as we've also been predicting from the very beginning.

One thing which I couldn't predict a year ago but where I think we took very decisive action is on the whole value development of the total U.S. generic marketplace. Those of you who have been following it know that there's been a dramatic reduction in the total value of the U.S. generic market space over the last, let's say, five years. And a year ago, I think it's fair to say we were in a classical negative death spiral of pricing on generics, just everybody going lower and lower. And I think I said also a year ago that this has to stop, and at least in Teva, we are stopping it because we're no longer supplying products below manufacturing cost products that do not contribute to our profitability. And we started the process of going and talking to all our key customers. We have three very big buying groups in the U.S, and then of course, we have other customers as well. And we took a constructive dialogue with all of them about the roughly 10% of our portfolio where the prices had gone below reasonable profitability levels.

And I'm happy to say we are through that process. Of course, we had to give up some of the volume, that didn't hurt us because we were not making money on it. And some of the volume we got price increases. But I think the most important thing, and this is I think the most significant maybe today that I'm sharing with you, is that the whole pricing dynamic in U.S. generics changed maybe as a factor of what we did maybe due to our circumstances, maybe that was just a new balance, you never know why things like this change. But at least it's very important that there has been a dramatic change and we no longer have this death spiral of price declines, but we have a much more stable situation. I believe, if you take the macro data, my guess is that, for the second quarter, third quarter, and fourth quarter, the total U.S. generics market will in absolute value be very much stable. And I'm also predicting that to be the case for the future.

That does not mean that we get back to where we were. It does not mean that the market goes back to doubling from where it came, but it just means that this constant reduction of the marketplace has stopped, and that's of course very important for us.

Another thing which is important for our strategy long term is that, as a consequence of biopharmaceuticals and biologics being a larger and larger part of the branded patented pharmaceutical market, longer term, of course,

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biosimilars will be a larger part of the total pharma market as well. That's a natural consequence as oncology products that are all biologics are increasing their value share of the total pharma market, long term, of course, biosimilars will also increase their share of the total pharma market.

So far, not much success has been seen with biosimilars in the U.S. marketplace. I think it's slowly about to change. There's a lot of pricing pressure on these kind of very expensive oncology therapies, and I believe we have something to bring to the party because we know how to manufacture these cheaply, efficiently, but we also know how to do it at a quality that can be trusted by the consumer and by the customers we deal with.

So I'm very optimistic about the future launches we're having a biosimilar of RITUXAN, a biosimilar of HERCEPTIN, and we're looking forward to launching them together with our partner Celltrion in the coming years. And I cannot sort of disclose the exact settlement dates we have, but we are basically settling on these products and looking forward to launching them.

Now, the big sort of elephant in the room a year ago, I mean maybe you could see still an elephant in the room, but at least it's more tamed now, that's the debt. We came from $35 billion, and we've been doing our best to bring it down. We're now down to around $27 billion, and we will continue in the coming years to bring it down. And I'll share a little bit of details both on the costs side and on the debt side just to show you what we've been doing.

This is just a simple story for, you probably seen it many of you from the third quarter. These are the last realized numbers we can share with you, and you can just see that out of the total two-year plan of a $3 billion cost reduction, we did hit the $1.8 billion already after nine months of the first year of the restructuring. You can also see here that the head count demanding of the company has since we met last time been reduced by approximately 10,000 people, which is completely according to the plan as well. Now the plan is not over yet. We are still executing on the plan this year throughout 2019. So there's more things happening, and there will be more plant final closures and so on, because when you decide to close the manufacturing side and consolidate, it's not done in one week, it's more done in like one, two years because you need to move products to other manufacturing sites, need to do it in a sensible way. So it takes time to wind down the manufacturing sites. And I think I also explained last year that short-term, our ambition is to go from roughly 80 manufacturing sites down to around 60, and we are well underway with that, and there will be probably around 10 closures throughout this year.

On the debt, there's been a few interesting moves you could say. We decided early 2018 to go out and do some refinancing. It was a good time to do it, and we managed to go to the markets and borrow $4.5 billion. We used that $4.5 billion both to pay down some of the loans we had with banks, so the term loans we had with banks. So we eliminated the bank debt, so to speak, so that we only had bond debt. And the benefit of that is, of course, the moment you only have bonds with a fixed interest rate, then you're sort of not subject to changes in your interest payments when the interest rate goes up. So we locked it all then you could see, which I think was a good thing. And then we also changed the debt stacks a little bit so that they got more smooth, and that basically means that we are now sort of operating with a scheme where over the coming years we'll be generating the cash flow needed to save – the debt that we need to save on a yearly basis. And you can see here how the net debt is now after nine months down to 27.6%.

Now a little bit about the strategic principles, how are we going to take Teva forward. The first thing is the key element of how to make the company more efficient, more competitive. And it's actually I think quite unique in the industry right now. And I'm not saying it's the best strategy for any pharma company, but I'm just saying, given the circumstances in our company, this is the best we can do. So we've created a new setup where, instead of being

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sort of siloed into specialty products, generics products, OTC products, biosimilars and so on, we just have one company.

Now, what does that mean? Well, it basically means we have one R&D organization, one manufacturing organization, one commercial organization. Now, you might say, well, isn't that a bit unfocused? Well, not exactly because it means that you can leverage your commercial organization, your pilot upscaling facilities, [ph] your – this, that and the other (11:53) in your broad portfolio. And that really means that you can get to the same results in terms of moving your R&D pipeline, moving your generic pipeline, launching your products, generating revenue with less cost and less complexity.

In a way, you're taking out between half and two-thirds of the complexity in the organization by just saying you have the classical elements, R&D, manufacturing, marketing, sales, finance and so on covering the whole business. So we've been moving out of the joint venture we had with Procter & Gamble on OTC. We do that on our own now. We've been totally reorganizing all the sales organization – commercial organization, so they take care of all the businesses we have in the geography, and we've been doing the same thing on R&D.

Now it sounds maybe not such a big thing, but since Teva was built on many, many acquisitions over many, many years, and this had never been done before, in many geographies, we had many, many geographical locations. Just here in the U.S., we still have a lot of geographical locations. We're putting it altogether, all the, let's say, sales, marketing, admin is being put together in Parsippany in New Jersey, as you might have heard, but that's coming from maybe 10 different locations. In big countries such as Israel for us, in Germany, many other places, we're doing the same, shutting down offices, shutting down R&D facilities, consolidating in less sites. So the whole one company idea is very important.

Another element where the one company idea is important is that, when I just spoke to you a year ago, I just heard introductions from my colleagues all over Teva and they all had great KPIs and they were all doing great, but the company was doing really bad. How can that happen? If you have subset KPIs for your performance, for your short-term incentives and so on, then you can meet a lot of short-term KPIs, but if you don't meet the KPI for the total company, which is basically earnings and cash flow, then it doesn't help a lot. So, this year, we've only had two KPIs and I shared them with everybody in the company who is on a bonus scheme, and that's the earnings per share and the cash flow. And then 25% for each individual, which is maybe pipeline or more different things for different people.

Now, that means that you understand for real that is one company and that is only if the shareholders gets rewarded that the employees should be rewarded. We need to have that situation where you don't have separate KPIs and people can sort of believe they're performing without real performing. So that's the one company spirit and idea, and I think it's working very well.

The next thing is organic growth. And again, here you could say organic growth, that's not really how Teva was built, and that's not maybe the best solution for everybody. But given the circumstances we have in Teva, that is for sure the only solution because, since we have a huge debt, there's no way we can do anything else but organic growth.

Now, that being said, I have, of course, a long experience of doing organic growth and seeing that, when you grow organically, you have the chance to organize really well, you have the chance to make it very efficient, very profitable and that in my mind is in itself a big value creator for the shareholders. So organic growth is the path we are on. We are not going to sell off anything major at all, we're keeping all the business lines we have and we're integrating as well as we can and getting the most out of it that way. And then you can say, okay yeah, but where

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can you grow organically? Well, we can actually grow organically in many different areas, and I'll get back to it a little later in the presentation, but we have many franchises, many business areas where we in the pipeline have strong development projects for organic growth.

Leadership in generics. Teva is by far the leader in generics worldwide, and of course we're going to maintain that position. Now what you need to do to maintain that position? You need to be able to, on a constant basis, very early on, file, if you can, be the first to file on hundreds of products. And you need to do it before you really know whether the original product you go for is making it well in the market or not. And you need to have the technology to match the technologies of all the new products that are being launched. And then as you go along, you need to have efficient portfolio management to make sure that the products you actually go for in the end will also be profitable and will be benefiting to the business results.

I think it's fair to say that Teva has been extremely successful in the past with going for everything, but given the changed dynamics in U.S. generics, and in worldwide generics, we're having a more targeted approach now where we carefully analyze each and every generic projects, and you have to remember we have hundreds of these, hundreds of ANDAs that are pending, hundreds of filings in Europe, in China, in Japan and so on. So we are now having a very structured process where we look for the most profitable projects, and where we, on a constant basis, follow-up on whether the projects still are looking profitable because we are depending on the fate of the originator drug. If the originator drug, which looks fantastic, flops in the marketplace or if the originator drugs gets more competition from other originator drugs, then of course we have to move and go with the projects that make sense. So we believe we can maintain that strength, we believe we have the technologies to do all kind of manufacturing, all kind of devices and thereby maintain leadership in generics.

Now on the R&D side, we have chosen to have biologics as our R&D platform. That basically means that on the innovative side, we are going for innovative biopharmaceuticals such as AJOVY that we just had approved, and such as more than 20 projects that we have in our pipeline. At the same time, we're also going for biosimilars and the benefit here is that everything from sort of past the research phase, it's overlapping whether you do an innovative biologic or you do a biosimilar because of the pilot scale manufacturing you need to do, the validations you need to do, the PK/PD you need to do, all this kind of thing is the same. So we have big synergistic effect in our R&D of doing both. So we're basically getting out of small molecules in terms of innovative drugs. We, of course, not out of small molecules in generics where we do hundreds of them, thousands of them every year.

And then the thing about Chagrin investments, that's just to say that, in this restructuring phase, where we are so focused on cash flow, it's not that we don't invest. Of course, we invest in the launch of AJOVY, we invest in the continued launch of AUSTEDO, we invest hundreds of millions in biopharmaceutical manufacturing capacity in a huge site in Ulm where we're building a huge biopharmaceutical manufacturing plant. So we haven't stopped investing in the business, it's just targeted investments instead of big M&A.

Here you have a little of the details on the generics. And I've been talking about some of it already. So very proactive portfolio selection and ongoing management so that you don't just launch a lot of products and by random see whether they make a big sale or small sale, big profit, small profit, but you manage it all the time thereby increasing the likelihood that the generics you're launching will be profitable.

A big focus on being first to market either because you're first to file and then become first to market or because you go for products that are complex. The more complex the product is, the more it includes devices or complex formulations of complex manufacturing steps, the more likely that there will be a limited number of competitors, and the pricing of generics is very simple, the more supply, the lower the price, nothing magical there. So, if there's only one or two generic suppliers, you typically get a good price and good profitability. If there's three, four,

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five, then that profitability drops steeply. So that's why we're going for these areas where there are high barriers to get in there.

Then we are keeping TAPI, TAPI, that's our API manufacturing organization. They're the world's largest manufacturing organization for APIs. They sell in to us, of course, or produce them for us, but they also do it to the third parties, and we're keeping that because we believe that the manufacturing technology base is a key element in being leaders in generics worldwide. We also keep our OTC assets for now to contribute to the cash flow and the profitability.

Now, the pricing I discussed that already. We think it's working. We think we are part of stabilizing the U.S. generics in how we are behaving and, of course, we also believe that our restructuring, consolidating the manufacturing footprint gives us more competitive manufacturing cost. This is not something that happens overnight, it takes years to consolidate the manufacturing. We are in the process of it, we'll continue for many years to consolidate, and hopefully, we'll see gradual improvements on our gross margins for years to come.

And then the biosimilars, and on the biosimilars, I would just say that there's one thing I think people have overlooked that because biosimilars are not AB-rated, you can't just switch once you get into the market as you need to be credible – you need to have a credible commercial organization that knows the hospitals, knows the customers so that you can launch. I think we do that. I think with biosimilar to RITUXAN, biosimilar to HERCEPTIN, we have a good understanding of the marketplace and we will be able to penetrate.

We are building our commercial capabilities constantly. I think, based on what we did with COPAXONE, we know very much how to behave in the sort of CNS neurology area. We're seeing that right now with AJOVY. We are having very competitive launch curve for AJOVY. We're having like I said 30% NBRx right now. So I think we know how to do that. In Europe, we're also doing well with the products we have there. So – of course, we're maintaining our sort of the world-class competitiveness in that space.

Then there's one small thing I'd like to mention also, which I think is interesting, on top of the fact that we have a complete biologics platform where we can develop both biosimilars and biologics in-house 100%. We also have a very interesting Respiratory business. And we've actually made a technology move that I think is interesting long term. We've been able to, as the first company, to have an FDA-approved integrated inhaler, which has electronics in it, so it is fully communicating with your mobile device and onto the sky and to your doctor or your parent or your spouse or wherever. And this connectivity which has been discussed for a long time for many products, it's being used in some sophisticated [indiscernible] (00:23:06) devices, but not in sort of the disposable systems yet. This is a disposable asthma inhaler, Digihaler, the ProAir Digihaler. And we're going to bring it in a selective way to the marketplace in this year. As I said it was approved within the last month and this is a very interesting value upgrade. It will not be for everybody because it costs more of course, but if you're a spouse or you're a parent and you're worried about an asthma patient, you want to follow the patient, you can do that. If you're a person who has problems adhering to your therapy, you can do that. So that's an exciting element that we've just done in the Respiratory space.

Now, long term, I believe we have three very strong growth drivers. Every single pharma market worldwide is going more generic. Japan is going more generic. China is going more generic. U.S. is going more generic. So anybody who can compete effectively in generics has a good sustainable business for many years. Biosimilars are increasing as a natural consequence of biologics having increased over the last 25 years. Biosimilars will also be increasing. I believe we know how to compete there. And then of course, Innovative Biologics, we are not the biggest in any of these franchises, but we know a lot about CNS. We know a lot about neurology. We know a lot

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about Respiratory. And I'm sure we can make good products also in the future just as we've been doing in the last 20 years.

Now all of this is of no interest to the shareholders unless it turns into value. And how do we make sure it turns into value? We do it by these three very simple mechanisms. A clear target for operating margin; we're not there right now but we'll get there in the coming years. A clear target for cash flow and cash-to-earnings because we need to pay down the debt, and a clear target for reduction of the debt getting down below three times EBITDA for the net debt. And then of course, a commitment to creating value for the current shareholders by not doing any new equity, but simply working on a long-term plan to reduce debt and thereby increase value for the current shareholders.

So this year, we'll be focusing on AJOVY, AUSTEDO, continuing to do nice on those. We'll be focusing on the stabilization of the U.S. generics sales. We'll be having some challenges as we've shared with everybody on COPAXONE and we might see generic competition on ProAir, on bendamustine. We'll hit the target for the restructuring. We'll do the consolidation moving from 60 to now around 70 further below 70 manufacturing sites worldwide. And then of course, we'll be committed to pay down debt and continue to do that going forward.

So, all-in-all, a little bit more the same from last year. But I hope you enjoyed the presentation. There's a Q&A session in the room just over here. So you're more than welcome to join me there. Thank you.

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