12-Feb-2020

Teva Pharmaceutical Industries Ltd.

(TEVA)

Q4 2019 Earnings Call

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CORPORATE PARTICIPANTS

Kevin C. Mannix
Senior Vice President, Investor Relations, Teva Pharmaceutical Industries Ltd.

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

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.

Brendan O'Grady
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.

OTHER PARTICIPANTS

Gregg Gilbert
Analyst, SunTrust Robinson Humphrey, Inc.

Ronny Gal
Analyst, Sanford C. Bernstein & Co. LLC

Louise Chen
Analyst, Cantor Fitzgerald Securities

Esther Rajavelu
Analyst, Oppenheimer & Co., Inc.

Ami Fadia
Analyst, SVB Leerink LLC

Umer Raffat
Analyst, Evercore Group LLC

Randall Stanicky
Analyst, RBC Capital Markets LLC

Balaji Prasad
Analyst, Barclays Capital, Inc.

Soo Romanoff
Analyst, Morningstar, Inc. (Research)

Elliot Wilbur
Analyst, Raymond James & Associates, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. And welcome to the fourth quarter and full year 2019 financial results. At this time all participants are in a listen only mode. There will be a presentation followed by a question and answer session. [Operator Instructions]

I must advice you the call is being recorded today, 12 February 2020. I would now like to hand the conference over to your first speaker today, Kevin Mannix, Senior Vice President, Head of Teva Investor Relations. Please go ahead.

Kevin C. Mannix

Senior Vice President, Investor Relations, Teva Pharmaceutical Industries Ltd.

Thank you, Steve, and thank you, everyone, for joining us today to discuss Teva's fourth quarter and full year 2019 financial results. We hope you've had an opportunity to review our very detailed earnings press release, which was issued earlier this morning. A copy of the release as well as a copy of the slides being presented on this call can be found on our website at www.tevapharm.com as well as through our Teva Investor Relations app.

Please note that the 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 and facilitates analysis by investors in evaluating the company's financial performance, results of operations, and trends. A reconciliation of GAAP to non-GAAP measures is available in our earnings release and in today's presentation.

To begin today's call, Kåre Schultz, Teva's Chief Executive Officer, will provide an overview of the 2019 performance, recent events, and priorities going forward. Our Chief Financial Officer, Eli Kalif, will follow-up by reviewing the fourth quarter financial results in more detail before providing an overview of Teva's 2020 financial outlook.

Joining Kåre and Eli on the call today is Brendan O'Grady, Teva's Head of North America Commercial, who will be available during the question and answer session that will follow the presentation.

Please note that today's call will run approximately one hour. And with that I will now turn the call over to Kåre Schultz. Kåre, if you would, please.

Kåre Schultz

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

Thanks, Kevin. Good morning, everybody, and thanks for calling in. It's a great pleasure to talk to you about our strong results for 2019.

On the financial side, it's worth noting that we met all the components of our 2019 guidance. Revenues came in at $16.9 billion. And here you should of course note that we've changed the way we report the disputing sales that

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we have in Israel, via as the lead company in Israel from a gross basis to a net basis. And we've done a revision to restate the numbers, so that you can see the numbers for 2017, 2018, 2019.

This has no impact on any earnings numbers or cash flow numbers. It's simply whether you record the revenue from distribution in Israel as well the net.

So we met that target for revenues. We met the target for the EBITDA with $4.7 billion and the non-GAAP EPS of $2.40. We're also very pleased that the cash flow came in above $2 billion.

Now the key drivers for this was some good business performance. AUSTEDO, as I'm sure you noticed, kept on its rapid growth and has of course big continued potential.

We launched AJOVY in the EU and got reimbursement in the first countries. Very excited about that. Also very excited about the fact that we just got the auto-injector approval in US, have it in Europe already. So that looks very good also for the future.

And then we are very pleased with the way we managed to – let's say, managed the decline of COPAXONE in both US and also in Europe. So we saw stable COPAXONE sales at the end of 2019. And we expect to see a modest decline in 2020.

In generics, we had many, many launches around the world. Alone in the US, we had nearly 50 launches, including our first big biosimilar launch in the US, TRUXIMA. We are also very happy about the results so far of that launch.

We also published our first ever Global Economic Impact report. Just a couple of highlights. Our products actually helped the US health care system save US$41.9 billion on a yearly basis. And out of that number, US$6 billion was patient savings, where they saved on our product costs. So we think we contributed very well in the US also with direct and indirect 57,000 jobs.

Now if we move to the next slide then. You probably all remember that in 2017, so a bit more than two years ago, 2.5 years ago, we had a pretty dramatic situation. We had a debt of $34 billion. And we had COPAXONE going off patent worldwide. So we were under a lot of pressure, looking at a revenue loss over a couple years of close to $5 billion.

The way to handle that was a restructuring plan that was meant to reduce our spend base by $3 billion, thereby securing cash flow to handle the debt and securing our future earnings.

I'm happy to report that we have executed the restructuring plan exactly as we laid it out 2.5 years ago. It has not been you would say easy on the organization. We've had to close down or divest some 23 manufacturing sites. Some of those are still in process of the final closures. And we've had to close more than 40 offices and laboratories around the world. Say goodbye to more than 13,000 employees.

Now we've managed to do this without hurting our operational capacity in any way. We are still fully operational on all the many, many products we do, 30,000 different products, many, many billions of SKUs per year.

And to give you a feel for how complex the restructuring has been, the next slide shows you a map of the world. And you can see that we've been closing down a lot of sites all over in North America, South America, Europe, Middle East, Southeast Asia, Japan. So this has really truly been a great effort. And I'd like to thank everybody in

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the organization for the fantastic job that they've done, keeping everything going in a nice way, high quality, while reducing the [indiscernible] (6:35).

Now one of the reasons why we had to do this was to handle our debt situation. And on the next slide, you see that we started out – when I started in the company back in the end of 2017, we were around $34 billion of debt.

I'm happy to report now that we've just come just below $25 billion, $24.9 billion. So it's definitely going in the right direction. And you should of course expect that this trend will continue in the coming years.

Now talking about the debt, we've also had to do a refinancing. And we've done that very successfully in the fourth quarter. And as a consequence of the refinancing, we now have liquidity and projected cash flow, cover the bond repayments due in the next three years.

The same time, we have a situation where our EBITDA is stabilizing, as we said we would, before said that the trough year for earnings would be 2019. So that's the bottom of the trough so to speak. And we've seen that stabilization happening.

So when you stabilize your EBITDA and you keep on reducing your debt, then slowly your ratio, your debt ratio, EBITDA to – net debt to EBITDA, will be declining. And that's where we've seen. Peak in Q2 of 2019 at 5.72x. And it's been declining. And has now come down to 5.32x at the end of 2019. And this ratio will keep on improving, meaning that it will keep declining in the coming years.

Talking about the debt, we have a slide here showing you the debt structure. And what you can see here is that the next three years we have debt stacks of around $2 billion, which basically means as I said before that we can handle these with the liquidity we have on hand right now and with the cash flow that we expect to be generating.

The debt stack in 2023 will call for some refinancing. So some time in 2022 you should expect that we will do the refinancing similar to the one that we just executed to handle that situation.

Now you could say the restructuring is now over and done with. And so what's next? So the next phase will be dominated by two elements. One is a continued improvement of our manufacturing cost, the gross margin, improving the gross margin. And the other is securing growth in the top line growth in revenues.

And if we move to the next slide, then I'd like to address the gross margin improvement program that we just initiated and that will be running over the coming years.

Now the program has five key levers. And these are not new for manufacturing optimization. They are all levers where we have not taken the full advantage of these levers in the past. And that's what we're going to do in the coming years.

So due to the fact that we have a very widespread manufacturing network and very many parts, we can still improve on our procurement cost excellence. And this is what we're going to be doing by consolidating things, getting better overview of the situation, and making sure that we get all the procurement benefits around the world.

Now we can also still improve our network. We had around 80 manufacturing sites when I started. We are now in the process of getting below 60. But we still have opportunities for consolidation of our manufacturing sites. And you will see this happening in the future year by year.

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But there's another way to optimize than just consolidate manufacturing sites. And that is to optimize each and every site on their own, basically making sure that the manufacturing volume should have matching capabilities, that you utilize your manpower, your equipment to the full. And in the restructuring, we really focused a lot on sort of optimizing the network footprint, closing sites, and moving things, so that we could consolidate our volumes.

Now in the coming years we will also be very focused on optimizing each and every manufacturing site for better efficiency, better ratio between output and cost. And we are very convinced that this is something we can do successfully.

Then, given the fact that we still have around 60 manufacturing sites worldwide and we sell billions of products every year, 30,000 different products, then of course the whole supply chain optimization is very important. And we are working hard to reach a situation where we have global systems that cover our entire supply chain. And that will be the basis for continuous optimization of the supply chain.

And then last but not least, we need to have an agile operating model and organization. And I'm happy to inform you that the new head of our manufacturing organization, Eric Drapé, has yesterday reorganized his organization to have a more technology focused setup, where we ensure that all the best practices can be implemented in a fast and consistent way across the world.

Now, some of you who are thinking more about the investment in Teva might say, okay, this is very nice, all textbook stuff about optimizing manufacturing. But what does it really mean to the P&L? And if you look at the next slide, you can see here, the operating margin expansion that we're projecting. And you will notice that the target is 28% in non-GAAP operating margin at the end of 2023.

Now there's really nothing new to this because this is our long term financial target that we already communicated in 2018. So what we're doing now is part of the plan from the beginning. And the reason why it's not the 27% you heard in 2018 is simply that the change of the reporting from gross to net on the Israeli distribution, this op – mathematically, this percentage [ph] by (12:40) 0.9 percentage point, so that's why we revised the target from 27% to 28%.

So this is our commitment that we will aim at reaching 28% operating margin at the end of 2023. So that's on the cost side you could say.

Then on the revenue side, I just explained that we need some strong growth and we need some strong growth drivers. So here we have two key products that are very important. One is AUSTEDO, and the other one is AJOVY. And I'll talk a little bit about both of those.

If we move to AUSTEDO first, then before I get into the sort of new things that we're looking at in our clinical development, I'd just like to say that we are very, very pleased about the performance of AUSTEDO in 2019. We keep on accumulating patient bases. And that, of course, helps a lot of patients. It is also a good contribution to our revenue growth.

Right now, we have around 9,000 patients on a daily basis using AUSTEDO. And if you think about the growth potential, you will know that in tardive dyskinesia there's only AUSTEDO and one other competing product that have been approved in the last couple years as the first products ever for this indication. So, for the first time ever, there's a way to treat tardive dyskinesia.

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It's our estimate that there's around 500,000 patients suffering from tardive dyskinesia in the United States alone. And that of course puts into perspective the fact that we have so far gotten to 9,000 patients on AUSTEDO. And it just indicates that we believe that this product can keep growing for many years to come.

On top of the current indication in Huntington's disease and in tardive dyskinesia, we're also working on two new indications. One is very imminent. That's Tourette's syndrome, where we have conducted a Phase 3 trial. And the results will be reported in the coming months. So that's very close to being reported.

Of course, we hope there will be a positive outcome. We don't know. It's too early to say. But it will be really good for patients if we saw a positive outcome of this trial. We're also doing a Phase 3 trial treating dyskinesia in cerebral palsy. There is no drug really approved for that. So, it will be a first if it's possible to show a good clinical effect.

These data we will see some time in 2021. But both these new indications are very exciting. And hopefully, they succeed to the benefit of patients, but of course also to the benefit of the growth of AUSTEDO sales.

If we move to AJOVY, then we have a lot of regulatory approval activities ongoing. We are in the middle of launching in Europe. We'll be launching our auto-injector soon in Europe. It has been approved. And talking about the auto-injector, we are also very pleased that we've had the auto-injector approved in the United States. And we will also in the coming months be launching the auto-injector in the United States.

We hope in the migraine indication that we will get back to a capture rate of around 25% based on the fact that we now have a competitive device. And we have a very, very competitive clinical profile.

We're of course also working on bringing AJOVY to the rest of the world, for instance, in Japan where we just had really good clinical results together with our partner, Otsuka, the partner for Japan, and then in many other markets. So you will see a lot of launches of AJOVY in 2020.

In terms of clinical development, if we move to that, then of course we're also working on expanding the clinical indications for AJOVY.

And we're doing some Phase 2 trials where we are expecting results in 2021. One is in post-traumatic headache, a very serious and quite widespread problem for many patients in the US. And of course, we hope to be able to show effect there. And the other one in fibromyalgia, which is also a disease that has a big patient population in US and a disease where there's really no real good treatment.

Now, talking about the different lifecycle managements, we're doing on AUSTEDO and AJOVY leads me to talk about our total specialty pipeline. And then we've not disclosed this before. But we are very happy about our pipeline.

As you know, we have a strategy where we want to be leaders in generics. And we want to aim for a leading position in biopharmaceuticals. And if you look at the pipeline, you'll see that we have a high number of biosimilars in development. And we have one imminent launch in biosimilars.

In novel biologics, we have a lot of different things going on. And most exciting short term is fasinumab that we are developing together with Regeneron; and where we hope to see data this year from the Phase 3 trials. And we're very excited about that and it has a big potential if it succeeds in clinical development.

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On the small molecule side, we're really not doing a lot of you would say new molecules. But we're doing some exciting long acting products in different CNS indications. And of course we do have the lifecycle management that we're doing on AUSTEDO.

And then we have a brand new thing, which is I would say potentially revolutionary in the respiratory field. That we have developed and gotten approval for some very, very sophisticated [ph] respi-halers (18:39), basically respiratory inhalers to treat asthma. And we are working now on launching these products some time during this year. And we are very excited about that.

If we move on to generics, then we are the world leaders in generics. And in order to maintain that position, of course you need to do a lot of generic projects. And we do so, more than 1,000 generic products are currently under development.

And you'll see here that the big numbers are quite favorable. Between 2020 and 2030, there are some $2,010 billion (sic) [$210 billion] in originator sales that go off patent. And you'll see that that fits very well with our business, where we have around $4 billion in revenue in North America. And we're loading in some $400 million, $500 million of new sales every year.

Which is basically if you think about the math, it's the $210 billion split up over 10 years. We get some 10% to 12% of that. And there's a price discount of some 80% from generics compared to the originators on average. And that ends you up with the $400 million to $500 million that we load into the market of new sales every year.

We of course also have a strong pipeline of generics in Europe and international markets. And overall, we are very confident of maintaining our leadership and also maintaining a good profitability going forward.

Now talking about profitability leads me to the long term financial targets. And as I've already showed you, we have a target by the end of 2023 to have a 28% operating income margin. We have a target already stated to be above 80% in the cash earnings (sic) [cash-to-earnings]. And we have a target to get our net debt to EBITDA below 3x, which we still aim at doing at the end of 2023.

And now talking about the financials, I would like to hand over to our new CFO, Eli, who will take you through the financials. Over to you, Eli.

Eli Kalif

Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.

Thank you, Kåre, and good morning and afternoon to everyone. I would like to start by saying that I'm extremely pleased to be here today as part of Teva team. I will start with a review of our financial results and then will follow that with a first look to our 2020 guidance as well as some of the major assumptions behind it.

Beginning on slide 20, we start with a review of our GAAP performance. In Q4 2019, we recorded a GAAP operating income of $148 million, a GAAP net income to Teva shareholders of $110 million, and a GAAP earning per share of $0.10. This compares to Q4 2018 when we recorded a GAAP operating loss of $3.2 billion, a GAAP net loss to Teva shareholders of $2.9 billion, and a GAAP loss per share of $2.85.

The year-over-year improvement in the quarter result was mainly driven by the impact of the nonrecurring item, which had as much greater negative effect in Q4 2018 compared to Q4 2019.

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Turning to slide number 21. We see impairment provision of $477 million for intangibles in Q4 2019, of which $259 million is the US intangible assets related to acquisition of Actavis Generics. This compares to $2.7 billion of goodwill and $1 billion of intangibles in Q4 2018.

Amortization was $290 million for the fourth quarter. And we expect 2020, the run rate should be at the range of $250 million and $260 million per quarter.

Lastly, restructuring charge of $59 million in the quarter were consistent with the ongoing activity throughout 2019.

As we turn to slide 22 we review our non-GAAP performance. Quarterly revenue were $4.5 billion, up slightly compared to Q4 2018. Revenue were mainly effected by higher revenue from AUSTEDO, AJOVY, TRUXIMA, QVAR, ProAir, and Anda in the US, as well as Europe generics, new product launch, and Russia, offset by generic competition to COPAXONE, as well as decline in revenue from BENDEKA/TREANDA, Israel, and Japan.

Compared to Q4 2018, we experienced a negative FX impact of $470 million. Net of FX, revenue in Q4 2019 increased by $96 million or 2%.

Gross margin for the quarter was 50.6%, compared to 52.7% in Q4 2018. The change in gross margin was mainly driven by a decline in share and profit of COPAXONE in the US and an increase in the less profitable distribution business, partially offset by the ramp of AUSTEDO and AJOVY. as well as an increase in profitability of API and other activities.

Operating profit in Q4 2019 was $1.1 billion, a 12% increase compared to Q4 2018. The increase was mainly due to the ongoing cost reduction program, higher revenue of AUSTEDO, and the ProAir family, partially offset by a decline in COPAXONE and other specialty brands, mainly BENDEKA/TREANDA.

Compared to Q4 2018 we experienced a negative FX impact of $29 million that operating income increased by $144 million or 50% net of FX.

We ended the quarter with a non-GAAP EPS of $0.62, 18% or $0.09 higher than Q4 2018, mostly due to higher operating profit and lower finance expenses, partially offset by higher tax.

Before going further with my review of the quarter, I would like to take a few minute to discuss the revision of previously reported consolidated financial statements related to our Israeli distribution business, S.L.E.

This business is part of the international markets reporting segment, which facilitates distribution of Teva and third party products to pharmacies, hospitals, and other organization in Israel.

In connection with the preparation of Teva consolidated financial statements for the fiscal year ended December 31, 2019, Teva determined that in the full year and interim period of fiscal years 2017 and 2018 and the first three quarters of fiscal year 2019, it had immaterial error in the presentation of distribution revenue from its Israeli distribution business.

The company evaluate the cumulative impact of these items on its previously issued annual financial statement for 2017 and 2019 (sic) [2018] and interim financial statement for 2017 and 2018 and the first three quarters of 2018 (sic) [2019].

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It concluded that the revisions were not material individually or in aggregate to any of its previously issued interim or annual financial statement. Teva has revised its presentation of the net revenue and cost of sales in the third quarter consolidated financial statement to reflect these items.

The impact of this revision is a decrease in the net revenue with an offsetting decrease in the cost of sales. There is no impact on the gross profit, operating income, or earning per share. In addition, there is no impact on Teva's balance sheet or statement of cash flows for the related period.

On slide 24, you can see a very detailed illustration of what changed and what did not due to the revision I just described. Throughout the presentation, we have noted the revision in some cases, like we have done here, have presented results both prior to and after the revision in order to assist you in your analysis.

Now turning to slide 25. We consider the fourth quarter was especially strong one for free cash flow. Teva free cash flow in Q4 2019 was $974 million, an increase of $452 million or 87% compared to Q4 2018 and more than $2 billion for the full year 2019, exceeding our annual guidance.

The difference compared to Q4 2018 was mainly due to the higher net income, focused working capital management, as well as a few one items, most notably as the lease sale and leaseback deal. As this relates to working capital in 2020, I would note that we expect working capital to be neutral to positive source of cash.

Generating free cash flow is our greatest focus in order to successfully continue reducing our debt load, an effort which is highlighted in slide 26. We ended the year with a net debt of just under $25 billion and a net debt-to-EBITDA ratio of 5.32 times, the second consecutive quarter decline.

Our expectation is that by the end of 2020, our net debt-to-EBITDA ratio will be below 5 times. As Kåre mentioned in his remarks, following our successful financing in November, our liquidity and expected cash flow will cover bond repayment for the next three years.

Now let's look at the development of 2019 results versus our guidance here on slide 27. We present the full year 2019 performance compared to the original guidance issued at the start of 2019, as well as the revised guidance from November, which saw us bring up the bottom end of all the ranges.

Please note that as it's related to revenue, the guidance range are the original range and do not reflect the revision of S.L.E. To add in your analysis, we are presenting the 2019 sales prior to and after the revision. And as I mentioned earlier, there is no further impact on the other metrics you see here, including cash flow.

We are very pleased with the overall performance throughout the year, which allow us to meet all of our financial guidance targets. We believe these results provide a strong foundation for us to begin growing from 2020 and beyond.

Turning to slide 28. I would like to give you a brief overview of some of the main assumptions for our 2020 financial guidance, which can also be found in this morning's press release.

The most notable assumption is our global COPAXONE revenue, which we expect to decline by approximately $300 million versus the full year 2019. The majority of this decline is expected to come mainly in the US.

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But the decline will be offset with the ongoing growth of AUSTEDO and AJOVY. We expect continued momentum of AUSTEDO in both tardive dyskinesia and Huntington's disease and expected sales to grow to $650 million in 2020.

Furthermore, AJOVY is expected to benefit from continued patient growth in both the US and Europe, where we can continue ramp-up our initial launch in Germany. Global sales of AJOVY are expected to be approximately $450 million.

I would like to add that we expect both North America and Europe generics to be relatively stable compared to 2019, benefiting from new launches which help us to offset regular price erosion or losses of exclusivity. In fact the only real pressure we see is in our international generics, where Japan continues to be a drag on our overall region due to their National Health Insurance price revision.

A few more items to highlight in our assumption. Foreign exchange rate movement are expected to create a moderate negative impact on revenue and operating profit versus 2019.

Looking at tax, in 2019 our tax was 18% as we guide last November. You will recall that our 2019 tax was higher than previous years, due to the interest expense disallowance, resulting from US tax reform and other changes to the tax position. As we look at 2020, we expect our tax to remain in the 17% to 18% range.

So now turning to our financial outlook for 2020 on slide 29. Based on the assumption I just reviewed as well as the S.L.E. revenue revision, we expect total 2020 revenue to be between $16.6 billion to $17 billion. And GAAP operating income is expected to be between $4 billion and $4.4 billion, while EBITDA is expected to be between $4.7 billion (sic) [$4.5 billion] to $4.9 billion.

Using a share count of approximately 1.1 billion shares, we expect earnings per share to be in the range of $2.30 to $2.55. Lastly, 2022 (sic) [2020] free cash flow is expected to be in the range of $1.8 billion to $2.2 billion.

And this concludes our review and for the fourth quarter results and 2020 financial guidance. We will now open up the call for questions and answers. Operator, will you please open the call for questions?

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QUESTION AND ANSWER SECTION

Operator: Thank you very much. [Operator Instructions] The first question we have today comes from the line of Gregg Gilbert from SunTrust. Please go ahead.

Gregg Gilbert
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. First, Kåre, I was hoping you could provide whatever update you can about progress on the settlement framework you laid out a few months ago, given its importance to cash flow and debt, et cetera, in the coming years.

And my follow-up's for Brendan. How can we best think about US generic sales in 2020? And can you provide the obligatory update on important products, like generic FORTEO and NuvaRing? And whether they're factored in for this year? Thank you.

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

A

Thanks for those two questions. So I'll address the first one and Brendan will do the second.

The framework that we negotiated last year is still being worked on. And the AGs are active and we are active in this. And so, is the other participants in the framework, the three distributors and Johnson & Johnson. And I'm still cautiously optimistic that this will result in an actual settlement. And this will be, I think, positive for the US population. It will be positive for those people in the US suffering from substance abuse. So I'm optimistic that it will come to fruition.

There's of course the New York trial coming up around March 20. And it would of course be beneficial if the settlement could materialize before that date, so that we wouldn't have to go through that trial. But it remains to be seen. There's nothing firm on it. But I'll just repeat that I'm optimistic about the chances of the framework resolving [indiscernible] (34:13). Brendan?

Brendan O'Grady
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.

A

Good morning and thanks for the question. So, in regards to the North American generic business, we see this year, 2020, much like we did 2019. It is around a $4 billion business and should continue to be right around that range. We get a lot of questions around the products and some of the big product will launch this year. Of course, RESTASIS, we continue to work with the FDA and have positive discussions there, as well as NuvaRing. So they are in the 2019 plan. Of course, they're properly risk adjusted.

Truvada is there as well in Q4. And of course we've already launched the biosimilar, TRUXIMA, which is the RITUXAN biosimilar, which is going quite well. And we'll launch HERZUMA in the March timeframe. So, all in all, we see this year shaping up very similar to last year as far as the US – or the North American generic business, which has stabilized for us quite nicely.

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

A

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Thank you, Brendan. Next question?

Operator: Thank you very much. The next question comes from the line of Ronny Gal from Bernstein. Please go ahead.

Ronny Gal
Analyst, Sanford C. Bernstein & Co. LLC

Q

Good morning, everybody, and thank you. Thank you for my question. First question is for Eli around the cash flows. Kind of looking at your cash flows year-over-year, and you basically are pointing us to essentially flattish free cash flow. You had a lot of impairment charges in 2019 that probably should not recur in 2020, associated with elimination of staff and so forth. Is there anything in the free cash flow in 2020 that we should be aware of? Is there – did you put some additional reserves for settlement and so forth? Or is this essentially the earning power of the business?

And the follow-up is around the biosimilar business. If I understand what Brendan told us, you guys are putting the biosimilar revenue in the US into the generic business. I was wondering if you could tell us a little bit about the relative contribution here, the margins. And I noticed that you've got TVB going into – in the clinic already. But I couldn't find it on ClinicalTrials.gov. Can you share with us what that product might be?

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

A

So, Eli, will take the first one, and then Brendan will take the second part.

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.

A

Hello. Thanks for the question. So, if you look on 2019 in terms of cash flow, we have kind of several one items. One of them, as I mentioned in my prepared remarks, is the S.L.E. leaseback, this one equivalent to run $120 million. And we had some significant reduction in our working capital, mainly associated with inventory of around $200 million for Q3 to Q4, as well year-over-year it's around $100 million (sic) [$150 million].

So, if you actually exclude those two mainly items, you'll end around $1.7 billion, $1.8 million, working now on the midpoint of around $2 billion for next year. And this is associated with what we are doing now in terms of operations and in margin. And again, more positive, I would say, elements on working capital.

Ronny Gal
Analyst, Sanford C. Bernstein & Co. LLC

Q

So this is really the earning power of the company in terms of cash flow. It's a good base to start the improvement for the following years from.

Eli Kalif
Chief Financial Officer & Executive Vice President, Teva Pharmaceutical Industries Ltd.

A

Yes, correct.

Ronny Gal
Analyst, Sanford C. Bernstein & Co. LLC

Q

Thank you.

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Brendan O'Grady
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.
A

So, Ronny, in regards to the biosimilar. So, as you know we launched TRUXIMA in the fourth quarter. And we were fairly pleased with the uptake of TRUXIMA in the fourth quarter. And we've achieved double digit market share. And you can see the market share kind of has been bopping around between 12% and 15%. We think we can grow that.

And we're pleased with the growth in that as well. We're not going to get actually into the margin. You can probably back into that a little bit. But, as you know, we have a profit share with Celltrion. So it's something that we don't really disclose. But we are reporting TRUXIMA as well as HERZUMA in the generic business.

Ronny Gal
Analyst, Sanford C. Bernstein & Co. LLC
Q

Okay.

Brendan O'Grady
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.
A

And I missed the last part of your question.

Ronny Gal
Analyst, Sanford C. Bernstein & Co. LLC
Q

You've got in your pipeline a product supposedly in Phase 1, a new biosimilar that you were developing on your own in Phase 1. And it's not in ClinicalTrials.gov. I wonder if you can share with us what that is and should we see it there soon.

Brendan O'Grady
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.
A

Ronny, I would actually prefer not to comment on anything that early in the pipeline. So we'll share more information with you that is appropriate at the right time.

Ronny Gal
Analyst, Sanford C. Bernstein & Co. LLC
Q

Thank you.

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

Thank you. Next question?

Operator: Thank you very much. [Operator Instructions] The next question we have comes from the line of Louise Chen from Cantor. Please go ahead.

Louise Chen
Analyst, Cantor Fitzgerald Securities
Q

Hi. Thanks for taking my questions here. So my first question here is if you could elaborate more on some of the pushes and pulls that actually get you to a sales and EBITDA growth in your guidance for 2020. And then my

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follow-up here is can you elaborate also a little bit more on the outlook for the European and the rest of the world generic market? Thank you.

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

Thank you. I'll take those. So if you take the push and pulls, then of course you got the main push and pulls, you got in the main assumptions.

So there's a pull coming from the global COPAXONE, where we're saying that we did $1.5 billion in 2019, and we expect to do $1.2 billion in 2020. That's roughly around $700 million US, $400 million EU, and $100 million in international markets. So that's a pull of $300 million.

And then we have AUSTEDO and AJOVY growing. And all together they grow up to $900 million. That's a plus of $400 million. So that's of course net positive of $100 million.

Then once you get into the detail, then of course there's a lot of details. Eli mentioned that we have a price erosion on some of the key products in Japan, linked to the reimbursement system of the Japanese government. So there's a decline there. We have other elements where we have increases, so a lot of smaller moving and moving parts.

If we look – and sort of sliding to the second part of your question about the generic business in Europe and in international markets, then we are expecting – and when we said this before as well, we're expecting low single digit growth of the generic market in Europe and also in international markets, if you exclude the price pressure that we're seeing on the long list of products in Japan. So a low single digit growth of generic and OTC for that matter in those markets. Thank you. Next question, please?

Operator: Thank you. The next question comes from the line of Esther Rajavelu from Oppenheimer. Please go ahead.

Esther Rajavelu
Analyst, Oppenheimer & Co., Inc.
Q

Good morning. Thank you for taking my questions. Kåre, a quick one for you if I may. You've talked about 2019 as the trough year for earnings. Yet the low end of your earnings guidance is below 2019 results. Can you walk us through some of the considerations that went into setting that lower end of the guidance range?

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

So when you set your guidance range, you will always have some kind of needed flexibility, because you don't know what's going to happen. And I have not missed the guidance of the company I've been working at for 62 quarters in a row. And I'm not planning to start doing that now.

So that means that in your guidance, you always need a certain flexibility for having some unforeseen events happening. And you can never sort of say to investors that there won't be bad surprises, right? So therefore of course the guidance includes a certain level of flexibility to handle bad surprises. That's just the way it is, and that's also the way it should be. Because with the breadth of our business globally, we cannot foresee anything that might happen during a full year.

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So therefore, you're right, that the low end is of course not what we're aiming for. That would never be the case. But it reflects the fact that there's always uncertainty in any business.

Esther Rajavelu
Analyst, Oppenheimer & Co., Inc.

Q

Thank you. And then a quick follow-up on AJOVY. How are you thinking about the US, the full US split in that $250 million guidance? And do you think an oral CGRP for prevention in the US could disrupt the market format meaningfully, either on pricing or patient preferences?

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

A

Yeah, so a quick answer to this. Roughly $200 million in the US and roughly $50 million outside the US with some variation of course, depending on the launch speed outside of the US.

And we don't think that the acute therapies that are coming to the market will have any meaningful effect on the preventive therapies that we're talking about here. Next question, please?

Operator: Thank you very much. The next question comes from the line of Ami Fadia from SVP (sic) [SVB] Leerink. Please go ahead.

Ami Fadia
Analyst, SVB Leerink LLC

Q

Hi, good morning, thanks for taking my question. Can you talk about some of the dynamics with regards to AJOVY in the US market, now that you have an auto-injector? Would you be more aggressive with regards to contracting and getting formulary access there to drive further growth? And if you could talk about how that dynamic might play out in the context of some new entrants in the market there? And then I have a follow-up.

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

A

Thank you very much. Brendan will answer your question.

Brendan O'Grady
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.

A

So yeah, I mean when you look at the preventive CGRP market in the US, and we knew that as we went through 2019, there were going to be ebbs and flows as to how things went with AJOVY.

But in general, we have the payer coverage that we need to hit our targets. We're about 70% preferred coverage across the US. Of course there are gaps that we continue to work on. And we continue to have conversations with payers.

But it's certainly a balance as you look at your gross to net as to how aggressive you'd that like to be and you need to be. We think now that we have the auto-injector approved, as we prepare for launch, which we'll do here in the next couple of months, we will have an offering that is really unmatched in the CGRP market.

We'll have the pre-filled syringe, we'll have the auto-injector, we'll have the ability for medical – on the medical side as well as on the self-administered patient side. And of course we have the quarterly dosing, which continues

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to increase. So the quarterly dosing now is up to about 17.1%. We continue to see that grow. And that's really indicative of AJOVY being the longest acting CGRP preventive therapy.

So we're quite optimistic about the continued growth of AJOVY and our competitive place in the market.

Ami Fadia
Analyst, SVB Leerink LLC

Q

Okay. Thank you. Can you also talk about the market opportunity in Tourette's syndrome for AUSTEDO? And then maybe if possible give us an update on the FORETO application.

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

A

Yeah. So on Tourette's, of course we haven't seen the final Phase 3 data, so it's a bit too early. But it's quite clear that if we were to see positive outcome of the Phase 3 trial, and, following that, if we were to get an approval from FDA, this is a very clear medical need, 4,000 patients. So there's definitely a very meaningful use of the product in that indication. And there's a very meaningful market for the product in that indication.

And then on your – I guess your third question, on FORTEO? Brendan?

Brendan O'Grady
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.

A

Yeah. I'll just give you a quick update on FORTEO. We continue to work with the FDA on FORTEO as you know. And if we're successful this year, it would be late this year or it could slide into 2021. We'll wait and see. But we're continuing to work with the FDA on it.

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

A

Thanks, Brendan. Next question?

Operator: Thank you. The next question comes from Umer Raffat from Evercore. Please go ahead.

Umer Raffat
Analyst, Evercore Group LLC

Q

Hi, since everyone is asking 1.3 questions, I'll do the same.

First, Kåre on the 2020 guidance, I noticed you're guiding ahead of consensus on AJOVY and AUSTEDO and a little bit on COPAXONE too. And yet, the overall guidance is not ahead of consensus. It almost makes me ask, is that delta entirely explained by the revision in Anda distribution, ex-US? Or are you guiding slightly below consensus on generics as well? That's first.

Second, the Tourette's trial you're flagging as a catalyst, it's my understanding the trial has been concluded since November. And I would have thought we should have results by now. And the fact that we don't makes me wonder, maybe we shouldn't be setting high expectation. But you flagged it very prominently. So I'm curious where you guys shake out and what are you expecting from that trial? Especially knowing Neurocrine did not work there.

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And finally, the operating margin target of 28% that you're setting out, can you give us a little more color on that as it relates to whether it assumes additional SG&A R&D declines? Or do you have to assume at least $2 billion in new revenues to get to those margin targets? Thank you.

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

A

Okay. Yeah. Like you said, three integrated questions. And let me try and answer all three of them relatively briefly.

So first of all, the dynamics I mentioned on the revenue, they are really sort of reflecting a marginal increase in revenue, which is also what the guidance is reflecting if you look at it.

We're not seeing a dramatic increase in revenue. And of course, it will accelerate in the coming years, simply due to the math that as we talk about before, the drag from COPAXONE is getting less and less as you can see. And the contribution from AUSTEDO and AJOVY is getting bigger and bigger.

In terms of North American generics, we are also maintaining the guidance we've had for the past, I would say, two years, which is the North American generics around $4 billion, which means $1 billion a quarter, can be up and down. Can be between $900 million and $1.1 billion. But that's really how we see also for the [indiscernible] (48:16).

On Tourette, you're absolutely correct. We don't know. The way it works with trials is of course that they are completely blinded. They get – you enter them, you clean the data, you do the analysis. And until you sort of have the final conclusion, you don't inform anybody about it, other than the team that's working on it.

So I have no knowledge about it, just like you have no knowledge about it. So it's anybody's guess.

You're absolutely right, a other product has failed in these trials. I have no reason to believe different than anybody else. So that basically means that in a situation like this, there is you know a big chance of success and a big chance of failure. That's the way it is with any Phase 3 trial.

In terms of the 28% margin. When what I tried to explain in my presentation was that we are now intensively working on a gross margin improvement project. As you know, our gross margin is around 50%, which means that the biggest cost element in our entire P&L is our manufacturing cost. And that also means if you want to see a meaningful improvement in your total margin, then you really need to try and improve that element.

And that's really what we're driving for now, doing a lot of things at the same time, planning a very consistent gross margin improvement program. Now that also means that what you should expect will be done in order to reach the 28% is a combination of improving the gross margin, modest growth in the top line, no dramatic changes to the R&D and the commercial cost pattern.

Umer Raffat
Analyst, Evercore Group LLC

Q

Thank you.

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

A

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Next question, please?

Operator: Thank you very much. The next question comes from Randall Stanicky from RBC Capital Markets. Please go ahead.

Randall Stanicky
Analyst, RBC Capital Markets LLC

Q

Great, thanks. Kåre, looking at your net leverage target of just under 3 times by 2023. If we take the current net debt and apply roughly $2 billion in free cash flow paydown through that time period, the implied EBITDA growth – or the implied EBITDA is closer to $6 billion. That seems like a big jump.

And even if we take a higher free cash flow assumption, we still get pretty robust EBITDA growth. So the question is, what is your confidence in that current leverage target for 2023?

And then the follow-up is you've been talking more recently about China than you have in the past. The revenue opportunity there for products like TREANDA and AUSTEDO. Can you talk about how important China is over the next three years to five years? And how much revenue contribution you think you can get from that region? Thanks.

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

A

Yeah, let me answer both of them. Let's start by China and say it's not a significant contribution over the next three years to five years. But it's a ramp-up from basically close to zero. And that means it's meaningful in the outer years.

Of course 5 years to 10 years out, you'll see that the strong the percentage growth per year means the absolute number starts being meaningful sort of 5 years to 10 years out.

And China is a slow moving market, where you need to launch your products. And then they survive for a long time and they keep growing for a long time. I've done that in my previous two companies, very successful. And I think we can do exactly the same here with products such as TREANDA, AUSTEDO, and so on. So it's a more long term play than it's a short term factor.

I am very firm on the target of growing below 3 times. I'll give you the simple math, just like you just laid out. Let's say we are at just below $25 billion right now. At end of 2023, we'll probably be, let's just say, very simplistic math, at least $8 billion lower, right? Hopefully, a little bit more, because we'll do $2 billion plus a year. That takes us to somewhere below $17 billion.

Now if you then say, okay, what is $17 billion divided by 3, that's just below $6 billion. So that means we need to grow EBITDA somewhere between $5.5 billion and $5.8 billion. And I think that's very realistic. So you're actually spot-on with the math. But it's very doable and it's our plan to do it.

Randall Stanicky
Analyst, RBC Capital Markets LLC

Q

Great. That's helpful. Thank you.

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

Next question, please?

Operator: Thank you. The next question comes from Balaji Prasad from Barclays. Please go ahead.

Balaji Prasad
Analyst, Barclays Capital, Inc.
Q

Hi. Good morning and thanks for taking the questions. Firstly, on biosimilars, can you throw some more color on the TRUXIMA market dynamics? Your competitor has come in with a strong discount. IMS shows they had a strong Q4. Can we expect this run rate to be maintained with the surprisingly aggressive discount?

Brendan O'Grady
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.
A

So, when you look at the biosimilar, I assume that you're – when you're talking about discounts, you mean their reduction of WAC price relative to the innovator?

Balaji Prasad
Analyst, Barclays Capital, Inc.
Q

Yes.

Brendan O'Grady
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.
A

Yeah. So we were 10% under. They came in at 23%, 24% under. But, of course, there's more gross to nets that happen in the overall channel. So, I think you have to take a look at how you balance that between the GPOs, between the payers. Certainly, have to take ASP into consideration and physician reimbursement. So, all those things are part of our competitive offering.

And I will tell you that we certainly want to maximize the value of the biosimilar launch. But, at the same time, we intend to be competitive on pricing and make sure that everybody in the value chain realign that appropriately to be successful.

Balaji Prasad
Analyst, Barclays Capital, Inc.
Q

Got it. That's helpful. Just secondly on – Celltrion announced its 2030 plans. Do you see an opportunity for you to enhance your current partnership, which is just limited two biosimilars? Could you take it up higher?

Brendan O'Grady
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.
A

Potentially. We're certainly open to having those conversations. We have a good partnership going right now with the first two. We're very optimistic about the launch of TRUXIMA. So we'll see where it goes.

Balaji Prasad
Analyst, Barclays Capital, Inc.
Q

Thank you.

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

Thank you. Next question, please?

Operator: Thank you. The next question comes from the line of Soo Romanoff from Morningstar. Please go ahead.

Soo Romanoff
Analyst, Morningstar, Inc. (Research)
Q

Hi. This is a great quarter. In the generic side, I know you have TRUXIMA as a positive. But I think you had 50 launches on the generics. Is there – is that kind of offsetting any pricing or is the pricing stabilized?

Brendan O'Grady
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.
A

So, the pricing for us is somewhat stabilized. And I think it depends upon your portfolio and your mix; what you have launched that's new, what goes into transition, and what's your basis.

But, for us, we've seen the pricing stabilize for us. That doesn't mean that on the base business that we don't have consistent RFPs and price challenges and everything else, because you do continue to see erosion there.

But new launches is certainly important. And it's not necessarily – because that's how you refill the bucket in what you're losing on the base business. And it's not always necessarily the number of new launches. You can have fewer launches, but higher value launches. So it kind of depends on the mix.

We had between 40 and 50 as you point out last year, depending upon what you count as a new launch. We probably will do fewer launches this year. But we may have some higher value launches. So, overall, that's kind of the ebb and flow of the generic business.

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

Yeah. And just to repeat the overall numbers, we have a North American generic business of just around $4 billion. And we see, you could say, price erosion every year, stabilizing probably at around $400 million, so like 10%. But then we see new launches also of around $400 million. It could be $500 million, it could be $400 million; it goes a little bit up and down. But, in the big picture, we see this as a very stable business going forward.

And the same goes for Europe where we see this modest single digit percentage growth of the business. And the only real challenge you could see on the pricing we have right now is in Japan where the price reforms means that the long-listed products are coming down in value. And some of the generics are coming down in value. So, overall, our generics business is in very good shape.

Soo Romanoff
Analyst, Morningstar, Inc. (Research)
Q

Yeah, that's super helpful, especially since you're kind of fighting off the COPAXONE and then the generic pricing. So, yeah, and great stuff on the specialty side also. Thank you.

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Brendan O'Grady
Executive Vice President-North America Commercial, Teva Pharmaceutical Industries Ltd.
A

Thank you.

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

Thank you. Next question, please?

Operator: Thank you. The next question comes from the line of Elliot Wilbur from Raymond James. Please go ahead.

Elliot Wilbur
Analyst, Raymond James & Associates, Inc.
Q

Thanks. Good morning. Kåre, just want to go back to the AJOVY opportunity in Europe. Could you reframe for us once again how you see that opportunity relative to the US in dollar terms? And then what you think your ultimate capture could be of that market? I know you talked about hoping to get back to 25% in the US, but how are you thinking about the relative European or ex-US opportunity, I should say?

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

Yeah.

Elliot Wilbur
Analyst, Raymond James & Associates, Inc.
Q

And then I also want to go back to, you've talked about the operating margin target quite a bit already. But want to just drill down on that a little bit more.

If I think about 350 basis points of improvement headed into 2023, I mean, that translates into incremental operating profit of around $630 million. Relative to your total COGS line currently, it seems to be a very small number. And I would have expected, just given some of the more aggressive restructuring or manufacturing optimization initiatives, that the ultimate savings there would be far greater than what we're seeing, which obviously also includes some element of growth in the business overall.

So just if you could maybe provide a little bit more granularity in terms of what the actual dollar amount that could come out of the COGS line over the next couple years versus growth in the business, that would be helpful. Thanks.

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

Yeah. Sure. So let me take those two questions. So, first, we have the question about AJOVY outside of the US. And if we look at Europe first, and one thing which is interesting actually given the debate about some super pricing in the US is that the pricing level we are seeing in Europe so far, that we expect to see going forward, and including different government rebates and so on, the net pricing is very similar between US and Europe.

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So we don't have the situation where Europe is priced lower. And the frequency of chronic migraine and the treatment of chronic migraine is at the same level in Europe as in the US, basically, meaning that you have a slightly bigger patient pool in Europe than you have in US.

There is traditionally a slower penetration in Europe than in the US for a couple reasons. One of the reasons is that you have 35 countries, each with their own healthcare systems and reimbursement systems. So it takes a while to do the negotiations and get on reimbursement country by country.

We're doing quite well. We got a lot of the big countries. But we're still working on others. And that means that your ramp-up curve in terms of market penetration is slower. Our expectation is that we can command the same share, basically a 25% share. We believe we have a clinical profile, which is actually the best in the market. It's longer acting than the other products. It's both quarterly dosing and monthly dosing.

And now we have a really, really good auto-injector that matches the competition. So we believe that 25% is a realistic target for this market.

On top of Europe, you could say there's a lot of small countries. But there's also Japan, where we have out-licensed the product to a very good partner, Otsuka, that I know for many years. And they just concluded, very successfully, a local trial in collaboration with us with excellent clinical outcome once again.

As you'll notice, AJOVY has only had excellent clinical outcomes in all trials, short, long, whatever, and now also in Japan. So we are also optimistic about the opportunity in Japan.

So long term, now we're talking maybe five years out, you'll probably see the same potential for AJOVY in US as in the rest of the world.

Now addressing your second question. Then 2023 is not the end of the optimization of our manufacturing operation. But what we're doing now is a long term program that will continue most likely for the next 10 years, where you optimize on a sustainable basis more and more by integrating your manufacturing more and more.

You have to remember, we come from a situation, the company was created out of 20 mergers, manufacturing sites all over the world, not really consolidated IT systems, not consolidated manufacturing planning. And we're improving all that as we speak.

And we think the target we give you for 28% in 2023 is very realistic. And then after that, of course we'll continue to work on optimizations. But it doesn't happen that fast in manufacturing, as I'm sure you know, regulatory requirements, approvals, stability programs, all the things you need to do when you consolidate and optimize your manufacturing is something that takes time.

And therefore, I think it's a realistic target we have. But it's also a positive development. And it's of course something we will keep on doing also after 2023.

Kevin C. Mannix

Senior Vice President, Investor Relations, Teva Pharmaceutical Industries Ltd.

Yeah.

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Kåre Schultz

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

Done?

Kevin C. Mannix

Senior Vice President, Investor Relations, Teva Pharmaceutical Industries Ltd.

I think – so I – do you have any more?

Kåre Schultz

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

No.

Kevin C. Mannix

Senior Vice President, Investor Relations, Teva Pharmaceutical Industries Ltd.

So thank you, everybody, for joining us today. I think we're past the 9:00 time. We apologize for those who were not able to ask a question. We'll be around all day and throughout the rest of the week and next week to answer any of your questions. Thanks again for joining us.

Kåre Schultz

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

Okay.

Operator: Thank you very much. That does conclude the conference for today. For those of you wishing to review this conference, the replay facility can be accessed by dialing the standard international number of +44-333-300-9785. Once again: +44-333-300-9785 using the conference ID number of 1459117. Thank you all for participating. You may now disconnect.

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