28-Jul-2021

Teva Pharmaceutical Industries Ltd.

(TEVA)

Q2 2021 Earnings Call

Copyright © 2001-2021 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Kevin C. Mannix
Senior Vice President & Head-Global Investors 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

Gary Nachman
Analyst, BMO Capital Markets Corp.

Navann Ty
Analyst, Citigroup Global Markets Ltd.

Elliot Wilbur
Analyst, Raymond James & Associates, Inc.

David Michael Steinberg
Analyst, Jefferies LLC

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

Umer Raffat
Analyst, Evercore ISI

Jason M. Gerberry
Analyst, BofA Securities, Inc.

David Amsellem
Analyst, Piper Sandler & Co.

Daniel Busby
Analyst, RBC Capital Markets LLC

Nathan Rich
Analyst, Goldman Sachs & Co. LLC

Copyright © 2001-2021 FactSet CallStreet, LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Teva Second Quarter 2021 Financial Results Conference Call. [Operator Instructions]

And I would now like to hand the conference over to your speakers today and, Mr. Kevin Mannix, Senior Vice President, Head of Investor Relations. Please go ahead, sir.

Kevin C. Mannix

Senior Vice President & Head-Global Investors Relations, Teva Pharmaceutical Industries Ltd.

Thank you, Ella, and thank you, everyone for joining us today to discuss Teva's second quarter 2021 financial results. Joining me on today's call is Kåre Schultz, Teva's Chief Executive Officer; Eli Kalif, Teva's Chief Financial Officer and Brendan O'Grady, Teva's Head of North America commercial.

We hope you've had an opportunity to review our press release which was issued about an hour ago. 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. 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 to disclose non-GAAP financial measures internally to evaluate and manage the company's operations in order 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. Please note that today's call will run approximately one hour. And with that, I'll turn the call over to Teva's Chief Executive Officer, Kåre Schultz. Kåre if you would, please?

Kåre Schultz

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

Welcome to all of you and thanks for your interest in Teva. I'll start by the financial highlights. Our revenues came in at $3.9 billion, which is roughly the same as a year ago and it was really driven very much by AJOVY and AUSTEDO, and it was also affected by the continued slightly lower script volume due to COVID-19 restrictions in Europe, in generics and OTC and to some extent also lower total market in the segments where AJOVY and AUSTEDO competes. So overall, given this situation, we were very satisfied with the revenue as they came in.

The adjusted EBITDA came in at $1.2 billion, and the GAAP diluted EPS came in at $0.19, and the non-GAAP diluted EPS at $0.59, very much in line with our expectations and the consensus estimate. Free cash flow came in at $625 million, also a number we were satisfied with. Our debt reduction continues as we've laid it out several years ago according to our plan, and the net debt to EBITDA ratio is now down to 4.7.

The 2021 revenue outlook is lowered to reflect the ongoing impact of COVID-19, from $16.4 billion to $16.8 billion down to $16 billion to $16.4 billion. However, operating income, EBITDA, EPS and free cash flow remains as already guided so it's reaffirmed. And the reason for this is basically that we have been awaiting the consequences of COVID in the total market, and therefore we've been cautious since the beginning of the year of course on our spend.

Copyright © 2001-2021 FactSet CallStreet, LLC

And now we can see that we have had a, relative to our plans, negative effect of COVID-19 on total market volumes in the first and second quarter, nothing to do with the market share of our products but basically just the phenomenon of patients not going as much to the doctor in the hospital as we expected in the first and second quarter.

We do expect this to change. We can see it's changing in the US due to the lifting of sanctions. And we can also see the first signs it's changing in Europe due to the lifting of sanctions within the last one or two months.

If we go to the next slide, then you see the revenue development here from 2019, 2020 and 2021. And you can see we have a very stable situation just around the $4 billion per quarter, a little up, a little down depending on launches. And of course, longer term, we want to change this into a growing trend, but it's really still the dynamics between the nice growth we have on AUSTEDO and AJOVY and the continued decline we have on COPAXONE. COPAXONE this year as you have seen will be down to around $1 billion, and that really means that the drag from COPAXONE is of course getting less and less by the year and next year it will be hopefully minimal, and that means that next year with the growth of AUSTEDO and AJOVY, we will see a more positive picture.

Next slide, please. AUSTEDO continues to grow, and you can see here the script numbers, the total script numbers per quarter where we had an all-time high in the second quarter. You can also see the revenues per quarter, and they are little up and down and there's some true-ups of rebates in there sometimes, there's some wholesaler swings in there sometimes. That's been a little bit of a, as you will say, lower wholesaler purchasing in the first quarter which is correct in the second quarter. Underlying we see a strong trend of growth aligned with the TRxs, we see stable pricing, and we are, you could say, starting a new initiative, which we started in May, which is a DTC campaign targeted at, you could say, tardive dyskinesia.

And tardive dyskinesia is of course a huge unmet need in the United States. We estimate there's around 500,000 people suffering from it, and only a fraction is treated so far. The campaign so far has resulted in expanded activity on our websites, and we're optimistic that this will continue to drive growth in prescriptions and consequently also continued growth in sales.

As a consequence of the slower market development compared to what we expected, we have lowered the outlook for AUSTEDO for the full year from $950 million down to $850 million.

Next slide, please. AJOVY showed solid net sales growth in the second quarter of 2021, and is really based on both the US and the European performance. As you see here to the left, the US performance, in terms of TRx is showing a very steady growth, it's increasing steadily quarter over quarter. And we saw record high sales in North America. The same thing is the case in Europe, where you can also see, here we show the market share, and you can see how the share has gone from around 10% now up to around 25% in a couple years, and we expect this to continue to grow.

And as I said, the last quarter we have changed our ambition level. We are now having an ambition level both in the US and in Europe of a third of the market, so a market share of 33%, and we think this is doable within the coming years, based on the very, very good safety and efficacy profile of AJOVY and the fact that it is the longest acting product and therefore also the only product that can be dosed both monthly and quarterly, so we are very optimistic about the future growth of AJOVY.

If we go to the next slide, then it shows Truxima, our biosimilar, and it shows how it continues to grow in share in the market. Right now we also here around 25% and the market has been improving after a sort of overall market

Copyright © 2001-2021 FactSet CallStreet, LLC

slowdown in the first quarter probably related to COVID, has started to improve and we expect it to continue to improve in total development over the year.

And of course, Truxima is the only biosimilar rituximab, which has the RA indication, and as such, very competitive and we believe we can hold on to a strong share in this, our first major biosimilar launch.

If we go to the next slide. As you know, our financial long term ambition is really to secure a business with a good operating margin, with a good cash conversion, and with an ever decreasing debt in order to basically stabilize the financial situation for the company. And I can say when it comes to the operating margin, we are well underway since it bottom out in 2019, we have been improving it significantly. And right now we are just shy of 27% which is the target for this year. And of course we're aiming for the 28% in 2023, and we are very confident that we can meet this target for the operating margin.

If we go to the next slide, please. Yeah, I was just talking about our long term financial targets, they are unchanged and of course they're to be achieved by the end of 2023, and I just mentioned the operating income margin of 28%. Cash earnings, we want that to be above 80% and then we want the net debt to EBITDA ratio that's currently standing at 4.7 to come down below 3.

Now when we execute our business, we deliver more pharmaceutical products, more medicines to the world than any other pharma company. And that's of course very, very important for the patients who use the products every day. They get high quality medication that serves them well in treating the condition they have.

But there's also another aspect to what we do when we are the leading generic company in the world, and that is that we help to create sustainable healthcare systems, where the authorities or insurance companies or whoever pays for the medication, the private individual, get a chance to have a sustainable and affordable access to medicine.

And we've started two years ago to have an independent external company do a report on what is the real economic benefit of our activities. And I'm just going to show you a few snapshots here. The report is available. You can find it online. It's from Matrix Global Advisors. And here, you can just see some highlights that we saved the US healthcare system some $29 billion in 2020. And you can see, we've done it by state. We have the details by state in the report.

But you can also see that the savings, they ended up, some of them with the government, some of them with private healthcare insurers, and some of it out-of-pocket co-pays that got reduced and so on and just the saving directly to the patients were $4 billion. So a significant contribution to the US healthcare system.

Now the same can be said for all countries where we operate. We don't do the report on all countries. That would be a very, very big task, but we did do it for nine countries in Europe. And also here, you can see the same pattern that we have been saving the countries a lot of money.

And on top of this, of course, when we do generics and biosimilars, we also create a lot of economic activity, which basically means that we contribute to society, not only in the form of savings in the healthcare system, but also in the form of job creation, in the form of economic growth and support to GDP in the various countries. So this was just a little teaser. If you're more interested in this, take a look at the report, you can find it online.

But with this, I think we should move on to have a look at the financials. So I'll hand over to our CFO, Eli Kalif.

Copyright © 2001-2021 FactSet CallStreet, LLC

Eli Kalif

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

Thank you, Kåre, and good morning and afternoon to everyone. I begin my review of the second quarter 2021 financial results on slide 14, starting with our GAAP performance. Revenue in the second quarter of 2021 were approximately $3.9 billion, an increase of 1% or a decrease of 2% in local currency terms compared to the second quarter of 2020. This decrease was mainly due to a lower revenue in our North America segment, mainly related to COPAXONE and Anda partially offset by positive foreign currency impact as well as higher revenue from generic products, OTC, AJOVY and COPAXONE in our Europe segment.

Revenue were also affected by changes in demand for certain products resulting from the impact of COVID-19 pandemic. Our Q2 2020 include the generic product sales in Japan totaling $65 million and approximately $240 million for the full year of 2020. As we have previously communicated, these products were divested as of February 1, 2021, along with the manufacturing site in Japan. Exchange rate movements during the second quarter of 2021, including hedging effect, positively impacted revenue by $135 million compared to the second quarter of 2020.

In Q2 2021, we recorded a GAAP operating income of $582 million versus $173 million in Q2 2020. GAAP net income of $207 million versus $140 million in Q2 2020, and a GAAP earning per share of $0.19 versus $0.13 in the same period a year ago. The year-over-year improvement in GAAP operating income, net income and earning per share was mainly due to a lower other assets impairment, restructuring and other item charges and higher profit in our Europe segment, partially offset by higher intangible assets impairment charges.

Turning to slide 15, you can see that the net non-GAAP adjustment in the second quarter of 2021 were $444 million versus $465 million in the second quarter of 2020. Non-GAAP net income and non-GAAP earning per share for the second quarter of 2021 were adjusted to exclude these items, with the largest being impairment of assets totaling $226 million in the second quarter of 2021. This include an expenses of $195 million for identifiable intangible assets impairment compared to expenses of $120 million in the second quarter of 2020. Amortization of purchased intangible assets totaled $173 million, the majority of which is included in cost of goods sold.

Now moving to slide 16, we review our non-GAAP performance. Kåre and I have already reviewed the second quarter revenue which totaled approximately $3.9 billion. So let's move down to the P&L and look at the margin. Year-over-year total non-GAAP gross profit increased by 4% and our gross profit margin improved to 53.3% compared to 52% in the second quarter of 2020. The year-over-year increase in the non-GAAP gross profit margin was mainly driven by higher profitability in Europe and international markets resulting from the change in product portfolio mix as well as a network optimization activities, partially offset by lower profitability from COPAXONE.

Our non-GAAP operating margin was 26.4% versus 25.3% a year ago. The increase was driven by the higher gross profit margin mentioned above. We ended the quarter with a non-GAAP earning per share of $0.59, compared to $0.55 in Q2 2020, mostly due to the higher gross profit.

Now let's take a brief look at our spend base on slide 17. Year-over-year, our quarterly spend base declined by approximately $15 million or $120 million net of FX. However, looking at our year-to-date comparison, spend base declined by more than $200 million or more than $400 million net of FX. The main driver for this change was the reduction in our cost of goods sold as operating expenses were slightly up.

The decline in sales had the greatest impact on the reduced cost of goods sold, supported partially by our ongoing efforts to improve our gross margin through the transformation of our network. Based on the first six

Copyright © 2001-2021 FactSet CallStreet, LLC

months of 2021 and according to our current estimation, we believe our spend base will come in approximately $12 billion for 2021.

Now, turning to free cash flow on slide 18, Teva's free cash flow in the second quarter of 2021 was $625 million, a nice rebound from the $59 million generated in the first quarter. As we have noted before, Teva's free cash flow typically faces a few headwinds at the start of the year due to usual timing of annual merit payments paid out in the first quarter. But the headwind was especially large in the first quarter, mainly due to the timing of working capital items, resulting from the increase in the net accounts receivable and inventories as well as lower profit in our Europe segment.

Please recall, our 2021 free cash flow guidance which we first provided in February, reaffirmed in April and are reaffirming today. 2021 free cash flow is expected to be in the range of $2 billion to $2.3 billion. We expect this free cash flow to pick up during the next two quarters as we keep driving optimization of our working capital with a high focus on inventory improvements.

Turning to our outstanding debt on slide 19, net debt declined to $22.7 billion versus $23.7 billion at the end of 2020. I'm pleased to report that just last week, we repaid an additional $1.5 billion, which is not reflected in the quarter end total, additional upcoming maturities, including $1.2 billion in the fourth quarter.

Our net debt to EBITDA continued to decline coming in at 4.7 for Q2 2021. Debt reduction continues to be our primary focus and main use of cash as we continue to push forward in our efforts to bring our net debt to EBITDA ratio under 3 times by the end of 2023.

So, turning to the financial outlook for 2021 on slide 20. While we have experienced a nice recovery in some countries and products from the effect of the global pandemic, we unfortunately have not seen this everywhere in our business. Some markets and products are still feeling the lingering effects that the pandemic has had on the purchasing pattern of our large global customers and overall utilization by patients.

Based on the results of the first six months for 2021, we believe at this time, it is prudent to adjust our guidance range for full year revenue from the original range of $16.4 billion to $16.8 billion to the new range of $16 billion to $16.4 billion. This lowers the midpoint of our range by $400 million.

The new range includes an adjustment to our full year expectation for global sales of AUSTEDO, for which we are lowering our guidance by $100 million to $850 million for the reason Kåre mentioned earlier.

For our other financial targets for 2021, operating income, EBITDA, earning per share, and free cash flow, we are reaffirming the current ranges first provided in February, reaffirmed in April. Where we end up with each of this range will be determined by – mainly by the rate of the recovery in the purchasing pattern and overall utilization by patients, as well as our product mix in our generic business for the rest of the year.

And this concludes my review of the results for the second quarter and 2021 financial guidance. We will now open the call for questions and answers. Operator, will you please open the call for questions?

Copyright © 2001-2021 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And your first question is from the line of Gary Nachman from BMO Capital Markets. Please go ahead.

Gary Nachman
Analyst, BMO Capital Markets Corp.

Q

Hi, good morning, guys. With the lowered revenue guidance, could you elaborate on what you're doing to maintain EBITDA, EPS and free cash flow guidance a little bit more? How much is gross margin improvement versus reducing OpEx? And are you likely to be at the lower end of the ranges for EBITDA, EPS and free cash flow?

And then, also just how do you see the second half recovery from COVID? How do you see that playing out? What's built into the guidance if the first half arguably saw maybe a little bit more pressure than what you had anticipated? And maybe talk about that regionally? Thanks.

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

A

Thanks for the question. I'll start by answering it and then Eli can comment if he has further elements to add. So the situation from the beginning of the year was of course that there was huge uncertainty with regard to your second question actually, which is to what extent COVID restrictions would affect the marketplace. And what we were anticipating when we came out with our first guidance was really that the vaccination drive would result in a lifting of restrictions in the second quarter so that economic activity and doctor visits and script activity and so on would resume in the second quarter, both in US and Europe.

Now the way we then manage the P&L, so to speak, was to be cautious on the overall spend pattern, nothing specific for a specific area. We just went slow on the spend so that we knew that we would be able to manage the situation from an earnings point of view and a cash flow point of view, should we come in a little lower if the restrictions in various countries were to continue, because we, of course, have no magical insight into how the COVID pandemic will develop.

Now it so turned out that we did see a lifting of restrictions, and then there was a lag in the US from lifting of restrictions, maybe not a lag on all consumption, but there was a lag on doctor visits and scripts. So we've seen a improvement, and now I'm sort of switching into answering your second question in combination here. We did see a improvement in scripts over the last two months in the US, but it didn't really come all the way from you'd say, the first of April. It came late in the quarter, and we are optimistic about the next two quarters based on what we've seen.

Now in Europe, it's a little different because there we really had restrictions all the way up to not very long ago in most major countries. And we're only now seeing the first signs that the situation is improving in terms of volumes in generics and OTC based on the lifting of the sanctions.

Now then you might ask, what's the assumption for the rest of the year in our guidance? The assumption for the rest of the year in our guidance is that we continue this situation with lifted restrictions. So you have some restrictions still in place, there're travel restrictions, there're some places where you need to wear masks and so on. But we are not baking into the guidance that we get some dramatic reversal to lockdowns due to some terrible

Copyright © 2001-2021 FactSet CallStreet, LLC

new variant or something like that. Everything we can see right now points to that actually hospitalizations and deaths are at a level where the governments will most likely not revert to lockdowns and severe restrictions that will affect script volumes in Europe and/or US. So that's really the assumption we have. So I hope that clarifies the assumptions, but also the way we are handling the earnings versus the revenue. Thanks for the question.

Operator: Thank you.

Gary Nachman
Analyst, BMO Capital Markets Corp.

Q

Thank you.

Operator: Your next question is from the line of Navann Ty from Citi. Please go ahead.

Navann Ty
Analyst, Citigroup Global Markets Ltd.

Q

Hi. Good morning. Thanks for taking my question. My first one is on opioids, if I may. So Teva was part of the 2019 agreement in principle with J&J and distributors, but was not part of the recent proposed settlement. Are you able to share any progress on a possible stand-alone global settlement? And I just have a quick question on AUSTEDO, if you plan another DTC or other promotional campaign during the rest of the year? Thank you.

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

A

Thank you for those two questions. So on the opioids framework, you're absolutely right that at the time in Cleveland when nearly two years ago when the framework was first established, there were the three distributors, J&J and us. And we have been in constant dialogue with the AGs and the plaintiff lawyers since then. I think it's fair to say that the cash amount and therefore, the immediate interest from the plaintiff lawyers has been higher in the four companies than in our offer. As you know, our offer is really to help the people suffering from substance abuse by giving them generic Suboxone, which can help them wean off the product, get off the bad products they're on and get back, hopefully, into a life without any substance abuse.

And we have been offering for a 10-year period to provide this free of charge to all states in the US. And I think that's a very attractive offer for the states. However, of course, since we are not offering much cash because, as you know, we have a huge debt of more than $20 billion, then the actual attorney fees related to it are, of course, less, and that's probably why they have decided to take the other four companies first and then move on to us second. We have been in an ongoing dialogue, as I said, both with the AGs and the plaintiff lawyers. We are optimistic that we can reach a settlement during the coming year. We think that the court cases that are ongoing right now gives a good incentive for all parties to reach a settlement, and we think a settlement will be to the benefit for all the Americans that suffer from substance abuse. So we are cautiously optimistic that we are moving ahead towards a settlement on a sort of nationwide basis for us.

On the AUSTEDO question, we will continue the DTC campaigns for AUSTEDO for tardive dyskinesia. As I said earlier on, there's a huge unmet need, nearly 0.5 million people suffering from tardive dyskinesia in the US, only a fraction being treated and this is a very good and important therapy. It's the first time there is a therapy for tardive dyskinesia, so we will continue to do that with the aim of having more patients treated to the benefit of them. And, of course, also resulting in increased sales of AUSTEDO. Thanks for the questions.

Copyright © 2001-2021 FactSet CallStreet, LLC

Navann Ty
Analyst, Citigroup Global Markets Ltd.

Q

Thank you.

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

Elliot Wilbur
Analyst, Raymond James & Associates, Inc.

Q

Thanks. Good morning. Kåre, maybe if you could just provide us with an update in terms of trends with respect to the North American generics business, specifically just what you're seeing currently in terms of price, volume erosion on the base and then the outlook for new pipeline opportunities, new generic launches. I know that there's this seemingly continual shift outward in terms of trying to gain approval for these complex generics, but you previously talked about teriparatide and Byetta as being complex generic opportunities in 2021. Maybe just an update on your expectations around base erosion trends and pipeline yield for the second half?

Then a follow-up on the commentary around AUSTEDO. Can you just let us know what the current, or, what percentage of current Rxs are in fact for tardive dyskinesia? And given that you've launched a product now in China, maybe you could just help frame expectations for the potential global opportunity relative to the US market for that product. Thanks.

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

A

Thanks for those two questions. I will give a broad answer and then I'll have Brendan give you some more details. So as I've said many times, the North American generics and biosimilar space is a space where we constantly have this, as you say, volume erosion on old products because more competitors come in and also price erosion on old products because new competitors come in. We are not seeing any dramatic changes in the market conditions. We're not seeing a lot less or a lot more suppliers and we're not seeing more or less price erosion that we've been seeing traditionally.

So I would say a quite average year this year. Basically, we are having a business to the tune of $1 billion a quarter, roughly $4 billion on an annualized basis for North America in the generic and biosimilar space. And we expect to maintain that going forward, potentially grow it a little. You're absolutely right that a lot of complex generics are being delayed, not just ours, everybody. I think with NuvaRing, we have probably the only complex generic approval this year. But with regard to all the other products, I'll just let Brendan comment how he sees the rest of the year for US generics.

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

A

Thank you, Kåre. I mean I think that, Kåre, you framed it up well. I think that we'll see US generics price erosion and volume. I think that price erosion is pretty much what we've seen as historic norms. It depends. It's highly dependent on what your portfolio is. But I think volume is coming back due to COVID as Kåre mentioned earlier in the call. We saw wholesaler orders kind of come back to what we would see pre-COVID levels during the month of June.

So when we think about new product launches, as I mentioned on some previous calls, we have up to maybe 12 potential complex generic launches when we started the year. FDA has only one what we call complex generic

Copyright © 2001-2021 FactSet CallStreet, LLC

approval as Kåre mentioned which was NuvaRing which was ours. We'll see what comes in the second half of the year, but there's still a decent stable of products that could be approved in the second half of the year. To-date, we've launched 13. I think last year, we launched 20 some generic products. So overall, I think we're trending just fine, and we should see, hopefully, approvals pick up in the second half of the year.

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

A

Thanks, Brendan. With regard to AUSTEDO outside the US, it's absolutely right that we've launched in China and we have a nice initial take-up. It takes a lot longer in China than it does, for instance, in the US. First, you have to work your way through hospital listings. We're doing very well there. Then you need to get on this national drug reimbursement list and also on the provincial list. And then eventually, you will see the product start to move in a serious way. So it will be some years out before you see big numbers on AUSTEDO China, but it's off to a very good start and it's meaningful, it's profitable. So we're happy about that.

With regard to the split between Huntington's and tardive dyskinesia, I don't have that exact split and I don't know whether we really have it. But Brendan, what would you say? What's your feeling about it because I don't think we have the exact numbers.

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

A

Yes. So, Kåre, the split between AUSTEDO, if you think about tardive dyskinesia and Huntington's disease is about 4:1, about 80%, nearly 80% of AUSTEDO scripts are for tardive dyskinesia. And of course that's why we're bullish on the product because about 6%, 7% of the estimated population with tardive dyskinesia has been treated. So there's significant room for growth there.

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

A

Thanks, Brendan. Thanks for the questions.

Operator: Thank you. Your next question is from the line of David Steinberg from Jefferies. Please go ahead.

David Michael Steinberg
Analyst, Jefferies LLC

Q

Thanks. Two questions. Kåre, just to clarify, did you say you expect the settlement in opioid litigation settlement this year? And if so, could you discuss the flexibility to manage through cash litigation payments in the future? I know you've offered mostly Suboxone product and less cash, but I'm assuming there will be a cash component.

And then secondly, just on shoring up some of the struggling revenues. I know you've indicated in the past that you're focused on debt paydown and you're not going to be buying any assets, but any opportunities to leverage your global sales infrastructure and bring in new products either via co-promotes, joint ventures or other type structures? Thanks.

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

A

Thanks for those two questions. So first of all, on the opioids, the framework, which is now nearly, as I said, nearly two years old, if you look at the framework, then you can say what it ended up with for the three distributors in J&J

Copyright © 2001-2021 FactSet CallStreet, LLC

is not radically different from what they initially agreed in the framework. So if you look at our framework deal way back, then it was $250 million over 10 years and it was Suboxone, generic Suboxone, over 10 years, whatever the demand was estimated at $23 billion at list price, probably $10 billion, $11 billion at net price, and of course a manufacturing cost, which is somewhat less than that.

Now if you look at the cash component here, then the framework with – resulted in a deal with J&J, where they pay over, I can't remember, five years or something like that. And I believe the distributors, they pay over something like 17 years. And you could say since we have a lot less money than those four companies, I would not be surprised if we end up paying over a longer period than the 10 years that we initially discussed, so maybe over 17 years. And that also means that if we have to pay more in order to get a settlement, which of course we would not like to do, then of course, there's some flexibility on that, if you stretch out the payments over a longer period.

So basically, I don't expect that anybody will have any benefit from trying to push us to cash payments which are not in line with our financial situation because that will not benefit anybody. So I don't really see that the cash component might increase, but I don't think it will be in a structural way that will really affect our liquidity to the extent that we will have any problems with serving our debt in a good and positive way because that's not in the best interest of anyone.

Now with regard to what we can do to generate more revenue based on, you could say, our business footprint, I think there are some good examples, not the least in the biosimilar space. You saw the deals we did with Alvotech, which will potentially give us new biosimilars in the US over the coming years. You saw that we did a deal recently on a LUCENTIS biosimilar in Europe.

So we are looking for these kind of opportunities, as you say, where our commercial footprint in Europe and North America can be used by companies who have a good product, but don't have that commercial infrastructure. And I'm marginally optimistic that we'll find some more products. They will not be huge blockbusters because then people tend to do it on their own. But I think we can supplement our revenues with these kind of deals over the coming years. Thanks for the questions.

Operator: Thank you. Your next question is from the line of Ronny Gal of Bernstein. Please go ahead.

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

Q

Good morning and thank you for taking my question. Two of them. First, can you talk a little bit about the branded pipeline? You've been working on a few things there. For the next 24 months, should we see any material pipeline use from there? And then secondly, regarding AJOVY, you kind of mentioned 33% market share. I'm wondering if this is just against the other injectables or also against the prophylaxis oral products which are coming in. And in general, if you consider the progress of the prophylaxis oral products, how big would you expect the injectable prophylaxis CGRP market to be, call it, three to five years out, kind of like how big is the market overall? And with that question, I would also like to extend my thanks and say goodbye to Brendan O'Grady, and thank you for all the years of service here. Thank you.

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

A

Thanks for those questions, Ronny, and good luck to you in the future, and good luck to us. In order to see good development is, of course, super important that the branded pipeline also delivers. And first, we should be happy

Copyright © 2001-2021 FactSet CallStreet, LLC

that risperidone LAI hopefully will get approved and will be launched next year. So that's not really a clinical news. But that's, of course, a rejuvenation of part of the pipeline. It's a super important product for people suffering from schizophrenia in the sense that it's subcutaneous, so it's not a intramuscular injection. And it can be lasting one or two months, which is longer than current therapy. So we think this can benefit a lot, people suffering from schizophrenia to get a more convenient therapy where they avoid relapses due to the convenient long-acting therapy. But there's a lot of other exciting things happening sort of short term.

You know that we have a very exciting concept in oncology that is being sort of the frontrunner is really a out license we have to Takeda, and it's the principle of attenuating a oncology product. So you basically have a oncology product that would be too toxic if it wasn't turned down, so to speak. And then you have – we have a special technology to turn down the effect and to make sure it works where it's supposed to work. And we have a very interesting product in our own pipeline.

And within a year, we'll see the Takeda results. And hopefully, they will be positive, validating the concept. And then we have our own product. And the idea is basically that you have a way of targeting the cells where you have the cancer and then you have a sort of killer cell mechanism that is turned down so that it's not toxic to the rest of the body, but is able to kill off the cancer cells. So that's very exciting to see the outcome of this Takeda trial which will validate the concept.

We also have IL-5 in clinical development, and that's really an upgraded version of the IL-5 for respiratory disease, which could be more efficacious, more long acting. So we're excited about that. And then we have a lot of early things going on. We have in fibromyalgia. We are looking at whether AJOVY can work in fibromyalgia. So many exciting things happening in the next two years, and of course, also early stuff where it's a little too early to get really excited because it's always difficult in the early phases. But I'm very happy about our pipeline in biopharmaceuticals. So that's really positive.

When we then switch to your second question on AJOVY, then I'll give it a comment and then Brendan can also supplement. The way I think about when I say a third is of the injectable prevention therapy. And we have to sort of distinguish a little bit here because there's all preventive therapy where you would basically take tablets all along, I think every second day or something like that, at a very, very high cost because if you have to take a tablet every day, I can't remember what the cost comes out, but very, very high. And then you have the quite cost-competitive injectables now, the three injectables. And my 33% is out of the injectable segment. I think the injectable segment will be significant because it's – even though it's an injection, it's subcutaneous, it's quite convenient and then you don't have to think about it, taking these tablets all the time.

People who do not like to take injections who have needle phobia and so on, they will for sure go for the oral therapy if they can get their insurance company to pay for it, because the actual cost of these type of therapies is very high. I also think there's a difference between US and Europe. I think it's going to be very, very difficult in Europe to get the prices we're seeing in US on the orals. The orals are very, very expensive compared to orals in Europe, whereas the injectables are more meaningful in comparison to other European therapies in the same space. So I think there's going to be some regional differences, but to give a specific answer, it's a third of the injectable segment I'm talking about. I don't know, if you want to comment on the orals, Brendan.

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

Yes. Of course, I'll make a comment. So first, Ronny, thanks for the nice words. It's been a pleasure speaking to you over the years. When we think about the migraine segment, as Kåre mentioned, when we talk about a third of the market, we're talking about the injectable market. But if you think about the overall migraine market, there's

Copyright © 2001-2021 FactSet CallStreet, LLC

multiple entries now. And we do see that the injectables will probably, the growth will be impacted by the orals. To what extent, we're really not sure. I think Kåre talked about the complexities of oral versus injectables. There's a lot of advantages to an injectable product in an oral preventative when it also has an acute indication. It's not necessarily straightforward as one might think.

So AJOVY has the longest acting – is the longest acting product in the migraine market, which gives us that three-month dosing regimen that others don't have. And I think what we're starting to see is we're starting to see AJOVY separating a little bit, at least clinically from maybe the other injectables because of that. And you're starting to see the increase in sales, right? I talked a little bit about that as we grew share and we went into the pandemic, we were growing share, but volume was coming down due to the pandemic. Well, now that we're coming out of it, we did $46 million in Q2 of this year, which is up 35% versus Q2 of 2020 and up 48% versus Q1 of 2020.

So I think AJOVY is on the right path. I think we are absolutely – we'll get to our goal of a third of the injectable market. And we'll have to kind of wait and see what the split is between orals and injectables. But again, it's not as straightforward with the orals as one might think. And I think there's a lot of advantages to a quarterly or monthly injection. So thanks for the question.

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

Q

Thank you.

Operator: Thank you. Your next question is from the line of Umer Raffat from Evercore. Please go ahead.

Umer Raffat
Analyst, Evercore ISI

Q

Hi, guys. Thanks for taking my question. Kåre, is there any chance of a blowup of the current settlement by J&J and distributors? And I ask because there are still a few reports of state AGs and certain counties, et cetera, not participating. So I wanted to gauge your thoughts there and whether that's necessarily a good or bad thing from Teva perspective?

And then secondly, I know there's still some lingering litigation between Teva and former Allergan now AbbVie on what percentage of the liability may potentially have to be covered by that entity on your opioid side? Can you just catch us up there? And what would your base case expectation be on what percentage of the cash balance has to be put up by them? Thank you, very much.

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

A

Thanks, Umer, for the two questions. So first of all, the overall nationwide settlement that has been announced between the three distributors and J&J, I think the risk of what you call a blow up or lack of participation is extremely low. And the reason why I say it is that since the framework where you could say there was basically a majority that wanted to participate because it was really negotiated with the lead plaintiff lawyers and with the lead state AGs. There's been a lot of work going on behind the scenes with everybody, including us. And it's quite clear to me that the majority of the states realize that if anything, good is going to come out of this, then there has to be a global settlement, because otherwise we will have potentially 3,000 court cases, which will drag out over the next 10, 20 years. And some, they might win, some they might lose.

Copyright © 2001-2021 FactSet CallStreet, LLC

In the meantime, it will make its way to the Supreme Court where there might be a win or loss. So it's totally unpredictable what will happen. And it's not going to help the US population in terms of those people who suffer from substance abuse. If you want to help people and if you want to improve the situation, then we need to do something about it. And there's this very – very sad fact that since all restrictions have been put in place by everybody, everybody is doing all they can to avoid any kind of abuse of prescription medication, we all know from statistics that the majority of the abuse today and for many years has been illegal fentanyl, illegal methamphetamine coming from China, coming from Mexico, coming from Colombia and so on. And it's the fight against that, and it's the help to people suffering from substance abuse in the form of Suboxone, in the form of money going to therapy and so on that can help the situation.

So I must admit I can't see how this will blow up because politically, and practically, this is the only solution. And at the end of the day, this is not really a legal situation at the core of it. This is really a societal political situation at the core of it. And therefore, I think we're also seeing now kind of a political/legal resolution, which I think will work for the majority. There might be some holdouts in the subdivisions. I think we saw already the judge in Cleveland putting pressure on these subdivisions saying you should – indirectly he is saying, you should join this because if you don't join, I'll put all the pressure on you to supply all the details for your county, for your region, for your native tribe or whatever it is. And that's a lot of work and a lot of pressure to put, of course, on the subdivisions because the judge in this case in Cleveland, I think he also wants to see a overall settlement.

So I don't think it's going to blow up. If it blew up, then, of course, it would be us taking it case by case. Right now, we have two cases, California and New York. It's always hard to predict. The only thing I'll say, it's not a clear cut case either way, which means that the plaintiff lawyers and the states they have a big risk as well in all of this. And that's what I think is part of why we will see a settlement also with Teva. And I actually said within the coming years, I didn't say within this year, I said within the coming year. And that's what I still believe.

When it comes to Allergan, there's no real litigation with Allergan at all on this. There is, of course, a situation that Allergan owned Actavis and Actavis was sold on to Teva. And when it comes to liability, it always has a component of the owner and has a component of the actual legal entity, and it has a component of timing. On top of that, of course, Allergan has its own independent opioid product that has nothing to do with Teva or Actavis whatsoever. So the way I look at it is that Allergan/AbbVie will most likely end up settling with the plaintiff lawyers in the States in an independent settlement. We will settle with them in an independent settlement, and that will be the end of that. So thanks for those two questions.

Operator: Thank you. Your next question is from the line of Jason Gerberry of Bank of America. Please go ahead.

Jason M. Gerberry

Analyst, BofA Securities, Inc.

Q

Hey, good morning. Thanks for taking my question. Just a follow-up on Umer's question with the opioid deal. It seems like there's a timing consideration for these opt-ins for the subdivisions that aligns with when we'll get rulings from the California, West Virginia, New York type cases that involve subdivisions. And so what I'm wondering is how important do you think these outcomes coming in at reasonable levels, how important that is to kind of corralling all the subdivisions into these opt-ins? Or do you think – there was a mention of legislation or agreements between the states and their subdivisions in order to sort of realize the full magnitude of the proceeds of those settlement deals. So it's more of a high-level conceptual question here if California, which is seeking $50 billion, a big number comes out. I wonder if that's going to create some motivation on the part of subdivisions to try it out in court.

Copyright © 2001-2021 FactSet CallStreet, LLC

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

A

Yeah. So it's a good question. So let me try and explain how it's working right now. First of all, the court cases in both New York and California will not have any clarification whatsoever on damages within 120 days. And you're absolutely right about the 30 days for the states to opt in and then the 120 days for the subdivisions to opt in. So in the bench trial in California, there's a judge, no jury and it's a two-step trial. So the first trial which will probably not even end within 120 days, it might but it might not. That part will only determine whether there's any basis for discussing liability at all.

And there might not be because in the way the trial is going, you can question whether the plaintiffs have proven any damages really or any causality between some of the products and the substance abuse in California, but that's another story. But anyway, the timing is such that there will be a decision by the judge on the liability. And then there will be another trial determining actual damages. So that means that that decision on damages, any amount, any dollar amount in California will be way later than 120 days.

In New York, it's the same thing that, first, this trial will go on for quite a while because it's a jury trial, it's complex. There's a lot of people involved. And therefore, there will also not be a monetary verdict, you could say, within 120 days. So what is most likely happening the way I look at it is that the state AGs, they think together with the key plaintiff lawyers, this is the time to wrap up this thing. It doesn't make any sense to keep on going.

Nobody has an interest in having a tail of small cases lingering because that will cost the lawyers a lot of money to proceed with these cases. The damages will be, of course, significantly less. Most likely there will be a heavy sort of leaning on the global settlement as a benchmark for this. So there will be a lot of pressure, I think, on the subdivisions to join in with the states and they will not see any numbers from California or New York before the time they have to decide. Does that clarify the situation?

Jason M. Gerberry
Analyst, BofA Securities, Inc.

Q

No, yeah, that's really helpful. I wasn't sure if California was consolidated damages and liability phase or just liability phase. So that's helpful.

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

A

No, it's separate. So basically, you could say, I think it's a psychological situation here where the key plaintiff lawyers, the key state AGs will put pressure on everybody to participate in this settlement, basically because they think it's the best for the country. And it's, I also think the plaintiff lawyers thinks it's the best economic outcome on average for all their plaintiff lawyers. You have to remember that their fees are to the tune of $2.5 billion. So it's a lot of money we're talking about also for the plaintiff lawyers.

Jason M. Gerberry
Analyst, BofA Securities, Inc.

Q

Great. Okay. Thank you.

Operator: Thank you. Your next question is from the line of David Amsellem from Piper Sandler. Please go ahead.

Copyright © 2001-2021 FactSet CallStreet, LLC

David Amsellem
Analyst, Piper Sandler & Co.

Q

Hey, thanks. So just on AUSTEDO, I wanted to come back to that. You talked about payer access or efforts to improve access if I'm not mistaken. Can you just elaborate on what access is like in terms of hoops patients have to, and practices have to jump through and how problematic that is in, particularly in tardive dyskinesia?

And then secondly, with your competitor having data later this year in Huntington's, Kåre, can you talk about the extent of competition there and the extent to which you could see pressure on AUSTEDO in Huntington's to the extent that your competitor gets a label expansion in that setting? Thank you.

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

A

Yes. Thanks for those questions. So I'll give it an overall answer and then Brendan can supplement. So if we look at the last question about Huntington's disease first, then I don't think it's going to have a major impact. I'm pretty convinced that those doctors who are preferring to use the competitor product, they are probably also in some degree already using it for Huntington's disease. They have the freedom of the medical choice, of course. So I think it's happening already. And it's a small part, as Brendan said. It's only about 20% of our business right now and the big potential is really in tardive dyskinesia, which leads me to your first question, where, of course, we have a lot of support activities to secure that the patients can actually get on the product. But I'll let Brendan explain to you some of the details on how we actually do that and secure that we get patients on the product. Brendan?

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

A

Yes, sure. Thanks, Kåre. So yeah, I mean, if you look at AUSTEDO's access, I think commercial AUSTEDO has 92% coverage, and that's preferred coverage and in Medicare Part D, it's pretty close, it's 89%. So across the board, AUSTEDO has broad payer coverage. And as far as patients getting on it, it really depends what that coverage means and it depends upon the specific plan. There could be prior authorizations. Many times there is, but it's not certainly an onerous process, and it's one that we work very closely with payers to make sure that those patients, whether it's HD or TD have access to it, and it's a fairly smooth process.

So we're happy where we stand with payer coverage. And we've talked a little bit about AUSTEDO. We think there's a tremendous opportunity. I agree with Kåre. Huntington's disease, what happens there with our competitors, I don't think it'll have a big impact, and there's still significant growth opportunities in tardive dyskinesia. So, thank you.

Operator: Thank you. Your next question is from the line of Daniel Busby of RBC Capital Markets. Please go ahead.

Daniel Busby
Analyst, RBC Capital Markets LLC

Q

Great. Good morning, and thanks for the questions. I've got two. First, a follow-up on opioid litigation, and I hate to belabor the point. But as we think about a potential settlement deal, is there a minimum percentage of plaintiffs that would be needed to be a part of that in order for you to move forward? Said differently, is there some level below 100% that you would be happy with understanding that achieving a truly global settlement may be difficult?

Copyright © 2001-2021 FactSet CallStreet, LLC

And second, you mentioned risperidone LAI earlier. Can you talk a little bit about how you're thinking about the market opportunity for that product just given the highly genericized nature of the risperidone market today? Thank you.

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

A

Thanks for those two questions. So if we take the first one about the opioid litigation again, then the way the deal that the distributors and J&J have made – structured is basically that there's a minimum that needs to participate and the more that participate, the bigger the payout, you could say, of the theoretical max amount. And I can't remember the exact number of states, but I think you should think about it this way, that the expectation is that certainly more than 40 states out of the 50 will participate, and hopefully, a number higher than that. And of the subdivisions, there's a lot of legal twists to it because for some states, once the state participate, the subdivision sort of have to participate.

For some states, it's unclear and for some states, it's clear that they don't have to participate. But my expectation would be that you are talking about a threshold of more than 80%, both for the states and for the subdivisions. And you have to remember that this is all negotiated with all the lead plaintiff lawyers. So this is not negotiated in isolation. This is a deal that's done by the aggregation of all the different lawyers into groups and then representatives from these groups. So I think it's very, very likely that you'll see this level of above 80% for both the subdivisions and for the states.

If we then switch completely to risperidone LAI, how big is that opportunity? I think it's quite a big opportunity because the pricing on LAIs is quite stable and good in the marketplace. And the pricing of LAI is really not gone generic for the new and better products. So that means that we will be launching probably with a price that's the average price of branded patent-protected LAIs.

You have to remember that the reason why we can do this new and improved product is a lot of research done into a new mechanism of prolonging the action profile of the drug. And that's why it's a subcutaneous injection instead of intramuscular. That's why it's a much thinner, much smaller needle, much more pleasant. And that's why it doesn't last two weeks, but it can last a month or two months.

And we have very, very good clinical data, which I'm sure you've seen. So we are very optimistic that we can get a significant and what do I mean by significant, I mean, more than 10% share of the total LAI market at a pricing level that corresponds to current, you could say, patent-protected products. So that means if you do the math on that, that it is actually a significant opportunity, which will both benefit our revenues, but of course, also benefit a lot of people suffering from schizophrenia. So thanks for that question. I think we have time for the last question.

Operator: Thank you. And your final question today is from Nathan Rich of Goldman Sachs. Please go ahead.

Nathan Rich
Analyst, Goldman Sachs & Co. LLC

Q

Good morning. Thanks for squeezing me in. I wanted to go back to the earlier commentary around guidance. And just a couple of follow-up questions. I guess, firstly, Kåre, around your comments on the revenue outlook for the rest of the year, it sounds like you saw volume pick up late in the second quarter. Have you seen that continue in July? And can you talk about what the guidance range assumes around volumes over the course of the year? I'm just wondering, how you're thinking about the potential variability around the Delta variant and the impact that that could have on doctor visits and volumes over the course of the year?

Copyright © 2001-2021 FactSet CallStreet, LLC

And then my second question is on the operating margin guidance. I think on one of the slides it showed the 2021 operating margin target being 27%. I guess if I use the midpoint of the guidance range, it would be closer to 27.5%. I know that's not a huge difference, but could you maybe just kind of clarify on what the operating margin target is for the year and how we should think about the swing factors between both revenue and expenses as we think about where you're likely to come in for the year? Thank you.

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

A

Yeah. Thanks for those two questions. I'll take the first one, and then I'll let Eli take the last one on the margin. So good question on the guidance. So exactly like we said, both in Europe and in US at the end of the second quarter, we did start to see some improvement in volumes. And as you can do from the math, we did roughly $7.8 billion in the first half. And you can conclude from the simple math of our guidance that we are going to do somewhat more in the second half in order to meet the guidance, of course, which we expect that we will. And that means that we are expecting to have higher volumes.

And there are two elements to it. One is that the restrictions have been lifted all over Europe, more or less. And in the US, they've also been lifted, and that has resulted in higher scripts in the US. And also now we see the first indications of some higher volumes in Europe.

Now our assumption here is, like I said in the beginning, that there will not be new lockdowns. Our assumption here is that the Delta variant will not cause massive full lockdowns of society again. So you are absolutely right that like any other types of business, right, if all of a sudden there's travel ban in the US, and there's a full lockdown in the US, then we have a new situation and then we would have to revise our guidance most likely. And the same thing for Europe, if all of a sudden, there was a travel ban in Europe and if all of a sudden there was, you could say, lockdowns. I personally don't think that's very likely because as I said, when you look at the number of severe cases that are being hospitalized and when you look at the number of deaths, then the increase in infection rates in various countries due to the new variants doesn't seem to create the mortality that we saw in the beginning and that's basically, of course, because of the high level of vaccinations in the US and in Europe.

So that's really the assumption is that we see higher volumes in third and fourth quarter as we saw them right here at the end of the second quarter. So this carries on as a consequence of the lifting of lockdowns and restrictions. And if that was to change then we have a new situation which we will, of course, communicate about if all of a sudden we see a US nationwide lockdown or something like that which I think is not likely, but that's really the assumptions behind it. And now maybe, Eli, you can comment on the margin?

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

A

Yeah. Hello, Nathan, thanks for the question. So if you go back to slide 16 where we show the first half of 2021, you can see that we generate gross profit margin of 53.6% very close to what we generate in Q2, which means that our run rate that we predict to end the year very close to the 53.5%. Now if you look back on the last two quarters' actual, we're actually lower than 27% on the OpEx, which means the OpEx is driving between around 26.8%.

Now when we target the 27%, and I know that it's a bit lower than the midpoint, which is 27.4%, that variable elements that we have in the OpEx which we assume 53.5% on the gross margin going to 27% on OP between that this is something around 26.5% to land on the OpEx versus what we had in the first half of 26.8%, that's 0.3%. That's the variable element inside OpEx. And we keep it like that because we still need to support, of

Copyright © 2001-2021 FactSet CallStreet, LLC

course, the revenue and a few other elements in our OpEx. So that's only the elements on some variable elements into the OpEx line.

Kåre Schultz

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

Thank you, Eli, for that answer and thank you, all of you. I'll turn it back to the operator.

Operator: Thank you. Ladies and gentlemen, that does conclude the conference for today. This conference will be available for a replay after 2:00 p.m. Eastern time today through till August 27 of 2021. You may access the remote replay system at any time by dialing 00443333009785 and entering the access code 9693275. I will repeat the number that's 00443333009785 and access code 9693275. Thank you for participating. You may all disconnect.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.